



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Ruston

Pierce County

For the period January 1, 2014 through December 31, 2015

Published December 22, 2016

Report No. 1018201





Washington State Auditor's Office

December 22, 2016

Mayor and City Council
City of Ruston
Ruston, Washington

Report on Financial Statements

Please find attached our report on the City of Ruston'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

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**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 Ruston
Pierce County
January 1, 2014 through December 31, 2015**

Mayor and City Council
City of Ruston
Tacoma, 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 Ruston, Pierce County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 6, 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.

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

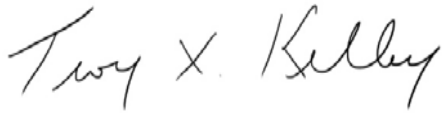
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

December 6, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Ruston Pierce County January 1, 2014 through December 31, 2015

Mayor and City Council
City of Ruston
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Ruston, Pierce County, Washington, for the years ended December 31, 2015 and 2014, 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 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 Ruston 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 Ruston, for the years ended December 31, 2015 and 2014, 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 Ruston, as of December 31, 2015 and 2014, 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.

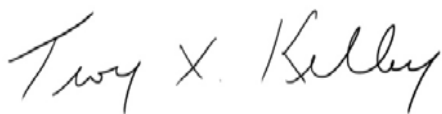
Other Matters

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 December 6, 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

December 6, 2016

FINANCIAL SECTION

**City of Ruston
Pierce County
January 1, 2014 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
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Schedule of Liabilities – 2015
Schedule of Liabilities – 2014

City of Ruston
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 City Street Fund
Beginning Cash and Investments				
30810	Reserved	454,262	750	203,261
30880	Unreserved	3,334,961	2,186,788	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	787,014	701,707	42,654
320	Licenses and Permits	179,200	179,200	-
330	Intergovernmental Revenues	651,717	21,409	630,307
340	Charges for Goods and Services	1,518,104	322,066	-
350	Fines and Penalties	95,155	81,330	-
360	Miscellaneous Revenues	100,047	100,221	-
Total Operating Revenues:		3,331,237	1,405,934	672,961
Operating Expenditures				
510	General Government	478,336	453,743	3,513
520	Public Safety	720,816	720,816	-
530	Utilities	767,491	474	-
540	Transportation	52,004	-	52,004
550	Natural and Economic Environment	374,394	374,394	-
560	Social Services	-	-	-
570	Culture and Recreation	566	566	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		2,393,606	1,549,992	55,517
Net Operating Increase (Decrease):		937,630	(144,059)	617,444
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	103,867	96,322	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
Total Nonoperating Revenues:		103,867	96,322	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	13,099	1,326	-
591-593	Debt Service	182,536	-	-
594-595	Capital Expenditures	982,312	2,580	725,365
597	Transfers-Out	5,000	5,000	-
Total Nonoperating Expenditures:		1,182,947	8,907	725,365
Net Increase (Decrease) in Cash and Investments:		(141,450)	(56,643)	(107,920)
Ending Cash and Investments				
5081000	Reserved	224,746	750	95,340
5088000	Unreserved	3,423,029	2,130,145	-
Total Ending Cash and Investments		3,647,775	2,130,895	95,340

The accompanying notes are an integral part of this statement.

301 Capital Construction Fund	401 Electric Utility Fund	403 Sewer Utility Fund	405 Garbage Utility Fund	407 Storm Sewer Utility Fund
164,878	-	85,373	-	-
-	256,109	655,322	52,183	184,559
-	-	-	-	-
42,654	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	509,190	478,735	175,558	32,554
-	8,031	4,333	1,461	-
-	-	(174)	-	-
42,654	517,221	482,894	177,019	32,554
3,513	7,027	3,513	3,513	3,513
-	-	-	-	-
-	469,849	156,449	117,745	22,974
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
3,513	476,875	159,962	121,259	26,488
39,141	40,345	322,932	55,761	6,067
-	7,546	-	-	-
-	-	-	-	-
-	-	-	-	-
-	7,546	-	-	-
-	-	-	11,773	-
-	-	181,206	1,330	-
-	84,331	159,530	10,507	-
-	-	-	-	-
-	84,331	340,736	23,609	-
39,141	(36,440)	(17,804)	32,151	6,067
204,019	-	(75,363)	-	-
-	219,670	798,255	84,334	190,625
204,019	219,670	722,892	84,334	190,625

The accompanying notes are an integral part of this statement.

City of Ruston
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 City Street Fund
Beginning Cash and Investments				
30810	Reserved	533,987	750	211,390
30880	Unreserved	4,001,904	2,889,394	-
388 & 588	Prior Period Adjustments, Net	-	13,101	-
Operating Revenues				
310	Taxes	611,319	578,393	16,463
320	Licenses and Permits	47,858	47,108	750
330	Intergovernmental Revenues	140,349	36,551	103,798
340	Charges for Goods and Services	1,353,371	181,698	-
350	Fines and Penalties	87,130	73,106	-
360	Miscellaneous Revenues	109,194	103,988	600
Total Operating Revenues:		2,349,222	1,020,844	121,611
Operating Expenditures				
510	General Government	498,106	477,825	2,897
520	Public Safety	645,433	645,433	-
530	Utilities	842,280	652	-
540	Transportation	56,725	-	56,725
550	Natural and Economic Environment	537,156	537,156	-
560	Social Services	-	-	-
570	Culture and Recreation	105	105	-
Total Operating Expenditures:		2,579,805	1,661,171	59,622
Net Operating Increase (Decrease):		(230,584)	(640,327)	61,989
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	16,724	16,724	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	40,000	-	40,000
Total Nonoperating Revenues:		56,724	16,724	40,000
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	10,308	(1,464)	-
591-593	Debt Service	182,536	-	-
594-595	Capital Expenditures	334,965	88,568	110,118
597	Transfers-Out	45,000	5,000	-
Total Nonoperating Expenditures:		572,809	92,104	110,118
Net Increase (Decrease) in Cash and Investments:		(746,669)	(715,707)	(8,129)
Ending Cash and Investments				
5081000	Reserved	454,262	750	203,261
5088000	Unreserved	3,334,961	2,186,788	-
Total Ending Cash and Investments		3,789,224	2,187,538	203,261

The accompanying notes are an integral part of this statement.

301 Capital Construction Fund	401 Electric Utility Fund	403 Sewer Utility Fund	405 Garbage Utility Fund	407 Storm Sewer Utility Fund
321,847	-	-	-	-
-	234,913	612,695	64,342	200,560
-	-	-	(13,101)	-
16,463	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	533,324	452,171	155,744	30,434
-	9,162	3,603	1,258	-
813	1,074	1,956	184	579
<u>17,276</u>	<u>543,560</u>	<u>457,731</u>	<u>157,187</u>	<u>31,013</u>
2,897	5,794	2,897	2,897	2,897
-	-	-	-	-
-	514,726	145,627	137,159	44,117
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>2,897</u>	<u>520,520</u>	<u>148,524</u>	<u>140,056</u>	<u>47,014</u>
<u>14,379</u>	<u>23,040</u>	<u>309,207</u>	<u>17,132</u>	<u>(16,001)</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	11,772	-
-	-	181,206	1,330	-
131,347	1,845	-	3,087	-
40,000	-	-	-	-
<u>171,347</u>	<u>1,845</u>	<u>181,206</u>	<u>16,189</u>	<u>-</u>
(156,968)	21,195	128,001	943	(16,001)
164,878	-	85,373	-	-
-	256,109	655,322	52,183	184,559
<u>164,878</u>	<u>256,109</u>	<u>740,695</u>	<u>52,183</u>	<u>184,559</u>

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	622 W.r. Rust Playfield Imp. Fund	623 Electric Meter Deposit Fund
308	Beginning Cash and Investments	94,398	7,205	87,193
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	6,832	6,832	-
380-390	Other Increases and Financing Sources	30,422	5,000	25,422
510-570	Expenditures	8,844	8,844	-
580-590	Other Decreases and Financing Uses	16,375	-	16,375
Net Increase (Decrease) in Cash and Investments:		12,035	2,988	9,047
508	Ending Cash and Investments	106,433	10,193	96,240

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	622 W.r. Rust Playfield Imp. Fund	623 Electric Meter Deposit Fund
308	Beginning Cash and Investments	97,202	11,033	86,169
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	6,843	6,782	62
380-390	Other Increases and Financing Sources	23,239	5,000	18,239
510-570	Expenditures	15,609	15,609	-
580-590	Other Decreases and Financing Uses	17,277	-	17,277
Net Increase (Decrease) in Cash and Investments:		(2,803)	(3,827)	1,024
508	Ending Cash and Investments	94,398	7,205	87,193

The accompanying notes are an integral part of this statement.

City of Ruston
MCAG #0624
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The City of Ruston was incorporated on October 19, 1906, and operates under the laws of the state of Washington applicable to a non-chartered code city with a mayor – council form of government. The City is a general purpose government and provides public safety, fire prevention, street improvement, parks and recreation, and general administrative services. The City owns and operates electric, sewer, garbage, and storm drainage utility systems.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law, the City also recognizes expenditures paid up to twenty (20) days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City adopts annual appropriated budgets for all funds. 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:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
General Fund	1,292,280	1,402,695	-110,415
Surplus Real Estate	2,927,835	5,000	2,922,835
Point Ruston Development		84,019	-84,019
Baumgardner Development		7,719	-7,719
Alex Koval		414	-414
Cumulative Reserve For Equip.	9,730	2,580	7,150
School Building Maint. Fund	95,050	56,472	38,579
Total 001 - General Fund	\$ 4,324,895	\$ 1,558,899	\$ 2,765,996
City Street Fund	60,000	55,517	4,483
Cumulative Reserve For Streets	107,565		107,565
Winnifred St. Project	773,000	725,365	47,636
Total 101 - City Street Fund	\$ 940,565	\$ 780,881	\$ 159,684
301 - Capital Construction Fund	237,900	3,513	234,387
Electric Utility Fund	623,160	476,875	146,285
Electric Utility Reserve Fund	226,600	84,331	142,269
Total 401 - Electric Utility Fund	\$ 849,760	\$ 561,206	\$ 288,554
Sewer Utility Fund	536,300	159,962	376,338
Cumul.res./sewer Equip&repairs	210,000		210,000
Sewer Debt Service Fund	218,500	340,736	-122,236
Total 403 - Sewer Utility Fund	\$ 964,800	\$ 500,698	\$ 464,102
Garbage Utility Fund	184,667	144,868	39,799
Garbage Utility Reserve Fund	36,650		36,650
Total 405 - Garbage Utility Fund	\$ 221,317	\$ 144,868	\$ 76,449
407 - Storm Sewer Utility Fund	\$ 235,020	\$ 26,488	\$ 208,532

Budgeted amounts are authorized to be transferred between departments within any fund or 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 3, *Deposits and Investments*.

E. Capital Assets

The City did not have a capitalization policy in place in 2015. 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. Accumulations exceeding this limit may be approved by the Mayor, but must be used within one year.

Sick leave may be accumulated up to 224 hours. Upon separation or retirement employees do receive payment for unused sick leave.

Comp Time may be accumulated up to 80 hours, and is payable upon separation or retirement. Employees may buy out their comp time.

Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The City's *Other Financing Sources* consists of planning and engineering deposits, a correction to retirement contributions by two employees, insurance recoveries, state pass through revenues, and interfund loan repayments.

The City's *Other Financing Uses* consists of interfund loan repayments, including interest.

I. Risk Management

The City of Ruston 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, 94 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 \$50,000 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 the City's 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:

Fund Name	Amount Reserved	Reason for Restriction
001	\$ 750	Drug Investigation cash for police department
101	\$ 95,340	Restricted due to source revenue (96.98% Restricted; REET 1, MVFT)
301	\$ 204,019	Restricted due to source revenue (95.3% Restricted; REET 2)

Note 2 - Property Tax

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

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

The City's regular levy for the year 2015 was \$2.932263274175 per \$1,000 on an assessed valuation of \$136,730,509 for a total regular levy of \$400,929.85.

Note 3 – Deposits and Investments

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

All deposits 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 fair market value. Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	<u>The City's own investments</u>	<u>Investments held by the City as an agent for other local governments, individuals, or private organizations.</u>	<u>Total</u>
Money Market Funds	1,792,184		1,792,184
U.S. Government Securities	1,479,353		1,479,353
<i>Total</i>	<i>\$ 3,271,537</i>		<i>\$ 3,271,537</i>

Note 4 – Debt Service Requirements

Debt Service

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Deb</u>
2016	57,121	124,085	181,206
2017	58,920	122,286	181,206
2018	60,776	120,430	181,206
2019	62,690	118,516	181,206
2020	64,664	116,542	181,206
2021-2025	355,182	550,848	906,030
2026-2030	414,748	491,282	906,030
2031-2035	484,304	421,726	906,030
2036-2040	565,525	340,505	906,030
2041-2045	660,368	245,662	906,030
2046-2050	771,116	134,914	906,030
2051-2055	432,777	20,238	453,015
	<u>\$ 3,988,191</u>	<u>\$ 2,807,034</u>	<u>\$ 6,795,225</u>

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2015:

Borrowing fund ▼	Lending fund ▼	Balance			Balance	
		01/01/2015 ▼	New Loa ▼	Repaymen ▼	12/31/2015 ▼	
405	005 (001)	\$ 66,456	\$ -	\$ 11,772	\$ 54,684	

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS 1, PERS 1 UAAL, PERS 2/3, LEOFF 1, and LEOFF 2.

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.

The City also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.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 Type ▼	Plan Liability / Asset ▼	Responsibility Percentage ▼	NPL ▼	NPA ▼
PERS 1	\$ 5,230,930,000	0.001822%	\$ 95,307.54	
PERS 1 UAAL	\$ 5,230,930,000	0.001155%	\$ 60,417.24	
PERS 2/3	\$ 3,573,057,000	0.001493%	\$ 53,345.74	
LEOFF 1	\$ (1,205,221,000)	0.000956%		\$(11,521.91)
LEOFF 2	\$ (1,027,800,000)	0.006079%		\$(62,479.96)
VFFRPF	\$ (19,271,000)	0.030000%		\$ (5,781.30)
Total			\$ 209,071	\$ (79,783)

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

Legal Actions

In 2014, a lawsuit was filed against the City of Ruston by Kye S. Barker and D-Song, LLC, owners of the Unicorn Bar and Grill. The suit alleges harassment by the City of Ruston, its Mayor, its police force, its Police Chief, and various police officers. The Plaintiff also alleges that the city has taken property by requiring the plaintiff to remove an outdoor sidewalk seating area that encroached on the City's Right-of-Way.

The City has coverage under its insurance policy from AWC, and AWC is currently defending the suit. As of May 29, 2016, the harassment and discrimination portion of the lawsuit have been dismissed, and the value impairment portion has been remanded to District court. The City believes all of its actions are well documented and legitimate, and the City is confident it would prevail at trial.

On August 14, 2014, a Standard Tort Claim Form was sent to the City of Ruston by the developer Point Ruston, LLC. Point Ruston alleges in the form that the City of Ruston contaminated Point Ruston property and impacted Point Ruston's stormwater outfalls.

The claims include alleged nuisance, trespass, negligence, liability for private cost recovery under the Model Toxic Control Act, RCW 70.105D, and treble damages under RCW 2.24.630.

Point Ruston, LLC has not yet filed a complaint with the court as of May 30, 2016. The City retained a legal firm and an outside consultant who conducted an evaluation of the legal and factual basis of Point Ruston's claims. This evaluation is has been completed. The City has received its legal review and believes the claims are baseless. No further action has been taken on this claim at this time.

On August 26, 2014, Point Ruston, LLC filed a Notice of Intent to Sue under the Clean Water Act. Point Ruston, LLC alleges that the City of Ruston has been discharging "Non-Stormwater" without an NPDES permit in violation of the Clean Water Act. Point Ruston acknowledges that the City of Ruston is under an exemption from the requirement for an NPDES permit for discharges composed entirely of stormwater.

Point Ruston, LLC has not yet filed a complaint with the court as of May 30, 2016. The City retained a legal firm and an outside consultant who conducted an evaluation of the legal and factual basis of Point Ruston's claims. This evaluation is has been completed. The City has received its legal review and believes the claims are baseless. No further action has been taken on this claim at this time.

No opinion on contingent liability or probability of outcome is expressed at this time.

Point Ruston, LLC has filed a Public Records Request lawsuit against the City in 2015. This lawsuit has been withdrawn as of May 29, 2016.

Utility Bond Issuance

During FY 2011 the City began construction on a complete Sewer Replacement Project. This project was approved by the USDA for a guaranteed revenue bond issue in FY 2009. The construction amounts to be budgeted were uncertain as to their timing. \$1.4 million was expended in 2011, including a significant contribution by the City due to a change in the scope of work. \$2.95 million was expended in 2012, and the project was completed during 2012. An additional \$98,534 was expended in early 2013. The terms of the USDA agreement required the City to pay for all amounts over the approved budget. The City contributed over \$460,000 to the project for change orders, administrative costs, labor, and planning expenditures.

The City had entered into an agreement with US Bank to provide temporary financing and to issue Revenue Bonds secured by the USDA upon project completion. The US Bank temporary funding was repaid from the bond proceeds. The Bond Anticipation Note (BAN) was a 24 month credit line that carries an annual interest rate of approximately 2.73%. The BAN was replaced by USDA Revenue Bonds in March of 2013. These bonds originally had a face amount of \$4,900,000.00, but due to completion of the project under budget they carry a face amount of \$4,120,178.21, and are amortized over 40 years at 3.13%. Semiannual payments are made in the amount of \$90,603.00. A reserve of \$226,500 is required to be maintained for bond payments.

The City paid the remaining retainage amounts to Rodarte Construction in 2015.

The City of Ruston participates in a number of federal- and state- assisted programs. These grants may subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City management believes that such disallowances, if any, will be immaterial.

No further action on this bond issuance is required.

Legal Compliance

The General Fund's (001's) budget also includes managerial funds 050 through 058 that are developer tracking funds. These funds track permit, engineering, and planning work performed by the city on behalf of property developers on the Point Ruston, Silver Cloud, and Stack Hill developments. These costs are reimbursable. There is a lag time in the payment of these items that crosses reporting periods due to the nature of the LID financing of the properties. These funds added to the general fund deficit in 2015 in the Engineering, Planning, and Legal departments. The balance of the over-expenditure was also due to the Planning, Engineering, and Legal costs relating to real estate developments within the city.

The City had an over-expenditure of its Sewer Bond Fund. The Fund had been previously held over from the Sewer Replacement Project in 2014. Balances were held in this fund to pay the construction retainage to Rodarte Construction. The payment of the retainage amounts had not been previously budgeted.

Future Contingent Liabilities

As part of the EPA Consent Decree relating to the ASARCO superfund site, ASARCO, and its assignor Point Ruston, agreed to undertake remediation of the Ruston Tunnel and other actions. The City has approved Point Ruston's remediation plans. The State Legislature has set aside funds to complete this project, and the City will undertake this project in 2016/2017

Public Works Projects

The City of Ruston has awarded the contract to upgrade and replace its manual read electric meters with AMR type meters to Landis & Gyr. This conversion to AMR meters was completed in 2015.

Private Development

The City of Ruston provides engineering, planning, and other development services to a number of private developers engaged in work at Point Ruston, Stack Hill, and other areas within the City boundaries under a Master Development Plan Agreement. The City invoices these developers for services rendered. Several developers are currently carrying unpaid balances with the City. The City tracks these balances separately from the General Fund, but reports them as part of the General Fund for annual reporting purposes. One of these developers is currently in multiple legal disputes with the City.

Comprehensive Development Plan

The City is revising its Comprehensive Development Plan with regard to standardizing zoning codes across the City. This will include a city-wide re-zoning to improve efficiencies in applying planning and zoning requirements to properties within the city boundaries.

Other Post-Employment Benefits

The City has one (1) LEOFF 1 Retiree. The City maintains health insurance through AWC Benefits Trust for this individual. In 2015, the total cost for this plan was \$19,915.

Interlocal Agreements

The City maintains an interlocal services agreement to participate in the South Sound 911 network.

The City maintains interlocal agreements with the Cities of Forks, Fife, and Puyallup for the care and custody of inmates and prisoners arrested by the City's police department.

The City maintains an interlocal agreement with AWC RMSA for the purposes of approving membership within the RMSA for insurance purposes.

The City maintains an interlocal agreement with the City of Tacoma and the Metropolitan Park District of Tacoma for the provision of law enforcement services inside Point Defiance Park. The City is compensated for its services in the amount of \$20,075 per year with an hourly rate for additional services if necessary.

The City maintains and participates in an interlocal agreement with the Pierce County Regional Council for the purposes of municipal planning and consistency with the requirements of the Growth Management Act (36.70A RCW).

The City maintains an interlocal agreement with the AWC Employee Benefit Trust Health Care Program for the purpose of providing healthcare benefits for City staff.

The City maintains an interlocal agreement with the City of Tacoma for the purposes of administering a Local Improvement District created for the purpose of making public infrastructure improvements in conjunction with the Point Ruston development.

The City maintains interlocal agreement(s) with the City of Tacoma for solid waste disposal, the purchase of wholesale electricity for distribution within the City's own electric utility, and the disposal of sewage. The City of Ruston also provides sewage transmission services for the City of Tacoma.

The City has leased its water system to the City of Tacoma's water utility. The Lease Agreement is set to expire in 2024. The City of Tacoma water utility maintains the water system in consideration for being exempt from the City's B&O tax on utilities.

The City maintains interlocal agreement(s) with law enforcement agencies in Pierce County, including the Pierce County Multi-Jurisdictional Task Force for the purposes of providing mutual aid and assistance.

The City maintains an interlocal agreement with Pierce County Fire Protection District #21 for the purposes of obtaining HAZMAT Response Services.

The City maintains an interlocal agreement with the Pierce County Department of Assigned Counsel for the purposes of providing indigent defense attorney services to defendants charged by the City with a crime that carries the penalty of incarceration.

The City maintains an interlocal agreement with the City of Bonney Lake for the purposes of code enforcement.

The City maintains an interlocal agreement with the City of Tacoma to provide fire dispatch communications services.

The City maintains an interlocal agreement with Pierce County Department of Emergency Management for the maintenance and repair of police radar equipment and testimony of expert witnesses in court cases where the radar equipment is at issue.

The City maintains an interlocal agreement with the South Correctional Entity (SCORE) for the care and custody of inmates with mental health issues, medical problems, and when there is insufficient space in other correctional Facilities.

City of Ruston
MCAG #0624
Notes to the Financial Statements
For the Year Ended December 31, 2014

Note 1 - Summary of Significant Accounting Policies

The City was incorporated on October 19, 1906, and operates under the laws of the state of Washington applicable to a non-chartered code city with a mayor – council form of government. The City is a general purpose government and provides public safety, fire prevention, street improvement, parks and recreation, and general administrative services. The City owns and operates electric, sewer, garbage, and storm drainage utility systems.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The City adopts annual appropriated budgets for all funds. 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.

Annually 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:

Fund/Department	Final		
	Appropriated	Actual	Variance
	Amounts	Expenses	
General Fund	1,305,733	1,453,245	-147,512
Surplus Real Estate	3,185,923	263,088	2,922,835
Point Ruston Development		199,718	-199,718
Baumgardner Development		6,329	-6,329
Alex Koval		22,851	-22,851
Cumulative Reserve For Equip.	9,730	4,585	5,145
School Building Maint. Fund	96,550	61,546	35,004
001 - General Fund	\$ 4,597,936	\$ 2,011,363	\$ 2,586,573
City Street Fund	71,500	59,622	11,878
Cumulative Reserve For Streets	107,565		107,565
Winnifred St. Project	799,200	110,118	689,082
101 - City Street Fund	\$ 978,265	\$ 169,740	\$ 808,525
301 - Capital Construction Fund	\$ 357,900	\$ 174,244	\$ 183,656
Electric Utility Fund	697,300	620,520	76,780
Electric Utility Reserve Fund	226,600	1,845	224,755
401 - Electric Utility Fund	\$ 923,900	\$ 622,365	\$ 301,535
Sewer Utility Fund	777,500	328,524	448,976
Cumul.res./sewer Equip&repairs	210,000		210,000
Sewer Replacement Capital Project	218,500	181,206	37,294
403 - Sewer Utility Fund	\$ 1,206,000	\$ 509,730	\$ 696,270
Garbage Utility Fund	169,300	169,346	-46
Garbage Utility Reserve Fund	36,650		36,650
405 - Garbage Utility Fund	\$ 205,950	\$ 169,346	\$ 36,604
407 - Storm Sewer Utility Fund	\$ 236,000	\$ 47,014	\$ 188,986

Budgeted amounts are authorized to be transferred between departments within any fund or 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 3, *Deposits and Investments*

E. Capital Assets

The City did not have a capitalization policy in place in 2014. 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. Accumulations exceeding this limit may be approved by the Mayor, but must be used within one year.

Sick leave may be accumulated up to 224 hours. Upon separation or retirement employees do receive payment for unused sick leave.

Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources* consist of consumer deposits, passthrough court revenues, and police seizures of property. The government's *Other Financing Uses* consist of refunds of consumer deposits, a loss prevention grant from AWC, and passthrough expenditures to the state.

I. Risk Management

The City of Ruston 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, 2014, 94 municipalities/entities participate in the AWC RMSA pool.

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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 2014, AWC RMSA carried a retention of \$50,000 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 are reported as reserved when the funds are subject to restrictions on use imposed by external parties or due to internal commitments established by the City of Ruston's 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:

Fund Name	Amount Reserved	Reason for Restriction
001	\$ 750	Drug Investigation cash for police department
101	\$ 77,888	Restricted due to source revenue (96.98% Restricted; REET 1, MVFT)
301	\$ 164,878	Restricted due to source revenue (95.3% Restricted; REET 2)
403	\$ 85,373	Restricted due to 2014 bond covenants

Note 2 - Property Tax

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

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

The City's regular levy for the year 2014 was \$2.73298798 per \$1,000 on an assessed valuation of \$126,859,429 for a total regular levy of \$346,705.30

Note 3 – Deposits and Investments

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

All deposits 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 fair value for money market accounts, and cost for US Government Securities. Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	<u>The City's own investments</u>	<u>Investments held by the City as an agent for other local governments, individuals, or private organizations.</u>	<u>Total</u>
Money Market Funds	545,656		545,656
U.S. Government Securities	2,713,353		2,713,353
<i>Total</i>	<i>\$ 3,259,009</i>		<i>\$ 3,259,009</i>

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2014.

The debt service requirements for revenue bonds, including both principal and interest, are as follows:

<u>Year</u>	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2015		181,206		181,206
2016		181,206		181,206
2017		181,206		181,206
2018		181,206		181,206
2019		181,206		181,206
2020-2024		906,030		906,030
2025-2029		906,030		906,030
2030-2034		906,030		906,030
2035-2039		906,030		906,030
2040-2044		906,030		906,030
2045-2049		906,030		906,030
2050-2053		634,221		634,221
	<i>\$ -</i>	<i>\$ 6,976,431</i>	<i>\$ -</i>	<i>\$ 6,976,431</i>

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2014:

<u>Borrowing fund</u>	<u>Lending fund</u>	<u>Balance 01/01/2014</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/2014</u>
405	5	\$ 78,228	\$ -	\$ 11,772	\$ 66,456

Note 6 - Pension Plans

Substantially all of the City's full-time and qualifying part-time employees participate in the PERS 1, PERS 2, and LEOFF 2 plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

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

Note 7 - Other Disclosures

In 2014, a lawsuit was filed against the City of Ruston by Kye S. Barker and D-Song, LLC, owners of the Unicorn Bar and Grill. The suit alleges harassment by the City of Ruston, its Mayor, its police force, its Police Chief, and various police officers. The Plaintiff also alleges that the city has taken property by requiring the plaintiff to remove an outdoor sidewalk seating area that encroached on the City's Right-of-Way.

The City has coverage under its insurance policy from AWC, and AWC is currently defending the suit. The suit remains in the discovery phase as of May 30, 2015, and an estimate of any contingent liability is not possible at this time. The City believes all of its actions are well documented and legitimate, and the City believes it would prevail at trial.

On August 14, 2014, a Standard Tort Claim Form was sent to the City of Ruston by the developer Point Ruston, LLC. Point Ruston alleges in the form that the City of Ruston contaminated Point Ruston property and impacted Point Ruston's stormwater outfalls. The claims include alleged nuisance, trespass, negligence, liability for private cost recovery under the Model Toxic Control Act, RCW 70.105D, and treble damages under RCW 2.24.630.

Point Ruston, LLC has not yet filed a complaint with the court as of May 30, 2015. The City retained a legal firm and an outside consultant who conducted an evaluation of the legal and factual basis of Point Ruston's claims. This evaluation is has been completed. The City has received its legal review and believes the claims are baseless.

No opinion on contingent liability or probability of outcome is expressed at this time.

On August 26, 2014, Point Ruston, LLC filed a Notice of Intent to Sue under the Clean Water Act. Point Ruston, LLC alleges that the City of Ruston has been discharging "Non-Stormwater" without an NPDES permit in violation of the Clean Water Act. Point Ruston acknowledges that the City of Ruston is under an exemption from the requirement for an NPDES permit for discharges composed entirely of stormwater.

Point Ruston, LLC has not yet filed a complaint with the court as of May 30, 2015. The City retained a legal firm and an outside consultant who conducted an evaluation of the legal and factual basis of Point Ruston's claims. This evaluation is has been completed. The City has received its legal review and believes the claims are baseless.

No opinion on contingent liability or probability of outcome is expressed at this time.

Point Ruston, LLC has filed a Public Records Request lawsuit against the City in 2015. No opinion on contingent liability or probability of outcome can be expressed at this time.

Utility Bond Issuance

During FY 2011 the City began construction on a complete Sewer Replacement Project. This project was approved by the USDA for a guaranteed revenue bond issue in FY 2009. The construction amounts to be budgeted were uncertain as to their timing. \$1.4 million was expended in 2011, including a significant contribution by the City due to a change in the scope of work. \$2.95 million was expended in 2012, and the project was completed during 2012. An additional \$98,534 was expended in early 2013. The terms of the USDA agreement required the City to pay for all amounts over the approved budget. The City contributed over \$460,000 to the project for change orders, administrative costs, labor, and planning expenditures.

The City had entered into an agreement with US Bank to provide temporary financing and to issue Revenue Bonds secured by the USDA upon project completion. The US Bank temporary funding was repaid from the bond proceeds. The Bond Anticipation Note (BAN) was a 24 month credit line that carries an annual interest rate of approximately 2.73%. The BAN was replaced by USDA Revenue Bonds in March of 2013. These bonds originally had a face amount of \$4,900,000.00, but due to completion of the project under budget they carry a face amount of \$4,120,178.21, and are amortized over 40 years at 3.13%. Semiannual payments are made in the amount of \$90,603.00. A reserve of \$226,500 is required to be maintained for bond payments.

The City will pay the remaining retainage amounts to Rodarte Construction in 2015.

The City of Ruston participates in a number of federal- and state- assisted programs. These grants may subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City management believes that such disallowances, if any, will be immaterial.

Legal Compliance:

The General fund's (001's) budget also includes managerial funds 050 through 058 that are developer tracking funds. These funds track permit, engineering, and planning work performed by the city on behalf of property developers on the Point Ruston, Silver Cloud, and Stack Hill developments. These costs are reimbursable. There is a lag time in the payment of these items that crosses reporting periods due to the nature of the LID financing of the properties. These funds added a net \$228,898 to the general fund deficit in 2014 in the Engineering, Planning, and Legal departments. The balance of the over-expenditure was also due to the Planning, Engineering, and Legal costs relating to real estate developments within the city.

Future Contingent Liabilities

As part of the EPA Consent Decree relating to the ASARCO superfund site, ASARCO, and its assignor Point Ruston, agreed to undertake remediation of the Ruston Tunnel and other actions. The City has approved Point Ruston's remediation plans, but will no longer financially participate in the remediation.

Public Works Projects

The City of Ruston has awarded the contract to upgrade and replace its manual read electric meters with AMR type meters to Landis & Gyr. This conversion to AMR meters will be complete in 2015.

Private Development

The City of Ruston provides engineering, planning, and other development services to a number of private developers engaged in work at Point Ruston, Stack Hill, and other areas within the City boundaries under a Master Development Plan Agreement. The City invoices these developers for services rendered. Several developers are currently carrying unpaid balances with the City. The City tracks these balances separately from the General Fund, but reports them as part of the General Fund for annual reporting purposes. One of these developers is currently in multiple legal disputes with the City.

Prior Period Adjustments

A prior period adjustment was made for the scheduled payment on an interfund loan. The final 2013 budget amendment provided for the loan payment, but the payment was not made until after the 2013 fiscal year had closed.

Comprehensive Development Plan

The City is revising its Comprehensive Development Plan with regard to standardizing zoning codes across the City. This will include a city-wide re-zoning to improve efficiencies in applying planning and zoning requirements to properties within the city boundaries.

Interlocal Agreements

The City maintains an interlocal services agreement to participate in the South Sound 911 network.

The City maintains interlocal agreements with the Cities of Forks, Fife, and Puyallup for the care and custody of inmates and prisoners arrested by the City's police department.

The City maintains an interlocal agreement with AWC RMSA for the purposes of approving membership within the RMSA for insurance purposes.

The City maintains an interlocal agreement with the City of Tacoma and the Metropolitan Park District of Tacoma for the provision of law enforcement services inside Point Defiance Park. The City is compensated for its services in the amount of \$20,075 per year with an hourly rate for additional services if necessary.

The City maintains and participates in an interlocal agreement with the Pierce County Regional Council for the purposes of municipal planning and consistency with the requirements of the Growth Management Act (36.70A RCW).

The City maintains an interlocal agreement with the AWC Employee Benefit Trust Health Care Program for the purpose of providing healthcare benefits for City staff.

The City maintains an interlocal agreement with the City of Tacoma for the purposes of administering a Local Improvement District created for the purpose of making public infrastructure improvements in conjunction with the Point Ruston development.

The City maintains interlocal agreement(s) with the City of Tacoma for solid waste disposal, the purchase of wholesale electricity for distribution within the City's own electric utility, and the disposal of sewage. The City of Ruston also provides sewage transmission services for the City of Tacoma.

The City has leased its water system to the City of Tacoma's water utility. The Lease Agreement is set to expire in 2024. The City of Tacoma water utility maintains the water system in consideration for being exempt from the City's B&O tax on utilities.

The City maintains interlocal agreement(s) with law enforcement agencies in Pierce County, including the Pierce County Multi-Jurisdictional Task Force for the purposes of providing mutual aid and assistance.

The City maintains an interlocal agreement with Pierce County Fire Protection District #21 for the purposes of obtaining HAZMAT Response Services.

The City maintains an interlocal agreement with the Pierce County Department of Assigned Counsel for the purposes of providing indigent defense attorney services to defendants charged by the City with a crime that carries the penalty of incarceration.

The City maintains an interlocal agreement with the City of Bonney Lake for the purposes of code enforcement.

The City maintains an interlocal agreement with the City of Tacoma to provide fire dispatch communications services.

The City maintains an interlocal agreement with Pierce County Department of Emergency Management for the maintenance and repair of police radar equipment and testimony of expert witnesses in court cases where the radar equipment is at issue.

The City maintains an interlocal agreement with the South Correctional Entity (SCORE) for the care and custody of inmates with mental health issues, medical problems, and when there is insufficient space in other correctional Facilities.

City of Ruston
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>
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	USDA Guaranteed Sewer 40 Year Bond	4/1/2053	4,040,237	-	55,383	3,984,854
259.12	Compensated Absences		46,167	611	-	46,778
264.30	Pension Liability		-	209,071	-	209,071
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,086,404	209,682	55,383	4,240,703
Total Liabilities:			4,086,404	209,682	55,383	4,240,703

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

<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						
259.11	Compensated Absences		36,489	15,966	-	52,455
	Total General Obligation Debt/Liabilities:		36,489	15,966	-	52,455
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	USDA Guaranteed Sewer 40 Year Bond	4/1/2053	4,093,923	-	53,686	4,040,237
259.12	Compensated Absences		9,678	3,336	-	13,014
	Total Revenue and Other (non G.O.) Debt/Liabilities:		4,103,601	3,336	53,686	4,053,251
	Total Liabilities:		4,140,090	19,302	53,686	4,105,706

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