



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Hoquiam

For the period January 1, 2017 through December 31, 2017

Published November 8, 2018

Report No. 1022455





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

November 8, 2018

Mayor and City Council
City of Hoquiam
Hoquiam, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
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 Hoquiam
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Hoquiam
Hoquiam, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Hoquiam, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 16, 2018.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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Pat McCarthy

State Auditor

Olympia, WA

October 16, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Hoquiam January 1, 2017 through December 31, 2017

Mayor and City Council
City of Hoquiam
Hoquiam, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Hoquiam, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Hoquiam, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Hoquiam, as of December 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

October 16, 2018

FINANCIAL SECTION

City of Hoquiam January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

City of Hoquiam
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General Fund	101 Cemetery Fund	106 Street Fund
Beginning Cash and Investments					
30810	Reserved	5,989,726	117,444	4,291	17,041
30880	Unreserved	5,336,523	1,404,349	971,289	127,105
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	5,848,024	5,443,760	-	-
320	Licenses and Permits	447,500	436,184	-	5,326
330	Intergovernmental Revenues	1,972,209	389,322	-	244,839
340	Charges for Goods and Services	7,988,996	1,074,023	61,043	12,544
350	Fines and Penalties	94,818	94,818	-	-
360	Miscellaneous Revenues	469,183	346,312	21,652	1,995
Total Revenues:		16,820,730	7,784,419	82,695	264,704
Expenditures					
510	General Government	1,232,781	1,099,519	-	27,977
520	Public Safety	6,425,073	4,536,003	-	-
530	Utilities	3,964,273	21,999	171,492	-
540	Transportation	517,321	121,833	-	323,515
550	Natural and Economic Environment	134,993	125,934	-	-
560	Social Services	1,697	1,697	-	-
570	Culture and Recreation	365,640	365,640	-	-
Total Expenditures:		12,641,778	6,272,625	171,492	351,492
Excess (Deficiency) Revenues over Expenditures:		4,178,951	1,511,794	(88,797)	(86,788)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	300,351	14,315	-	163,855
385	Special or Extraordinary Items	39,145	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	2,175,949	11,631	-	-
Total Other Increases in Fund Resources:		2,515,445	25,946	-	163,855
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,421,081	308,292	3,417	15,585
591-593, 599	Debt Service	1,151,738	21,692	-	-
597	Transfers-Out	591,488	577,173	-	-
585	Special or Extraordinary Items	247,424	16,293	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	474,816	202,004	-	-
Total Other Decreases in Fund Resources:		5,886,547	1,125,453	3,417	15,585
Increase (Decrease) in Cash and Investments:		807,849	412,288	(92,214)	61,482
Ending Cash and Investments					
5081000	Reserved	5,534,214	99,083	4,904	18,134
5088000	Unreserved	6,599,884	1,834,998	878,461	187,493
Total Ending Cash and Investments		12,134,098	1,934,081	883,365	205,627

The accompanying notes are an integral part of this statement.

City of Hoquiam
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		109 Ambulance Fund	112 Tourism Fund	114 General Capital Fund	130 CD Repay Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	-	33,025	69,748	219,892
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	205,553	19,457	47,237	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	7,969	-	-	-
340	Charges for Goods and Services	1,810,335	-	-	2,462
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	110	354	-	100
Total Revenues:		2,023,967	19,810	47,237	2,562
Expenditures					
510	General Government	-	-	-	370
520	Public Safety	1,889,071	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	2,794	-	6,265
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		1,889,071	2,794	-	6,636
Excess (Deficiency) Revenues over Expenditures:		134,895	17,017	47,237	(4,074)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	39,145
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	170,507	-	-	17,622
Total Other Increases in Fund Resources:		170,507	-	-	56,766
Other Decreases in Fund Resources					
594-595	Capital Expenditures	177,532	-	-	27,089
591-593, 599	Debt Service	1,415	-	-	-
597	Transfers-Out	14,315	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	102,306	-	-	-
Total Other Decreases in Fund Resources:		295,567	-	-	27,089
Increase (Decrease) in Cash and Investments:		9,835	17,017	47,237	25,605
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	9,837	50,042	116,985	245,496
Total Ending Cash and Investments		9,837	50,042	116,985	245,496

City of Hoquiam
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		<u>209 UTGO Fund</u>	<u>210 LTGO Fund</u>	<u>213 LTGO Fund</u>	<u>302 Sidewalk Fund</u>
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	-	-	-	28,235
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	85,665	-	46,354
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	75	-	30,004
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	-	365
Total Revenues:		-	85,739	-	76,723
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		-	85,740	-	76,723
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	96,700	-	25,481	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		96,700	-	25,481	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	57,166
591-593, 599	Debt Service	96,700	-	25,481	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		96,700	-	25,481	57,166
Increase (Decrease) in Cash and Investments:		-	85,740	0	19,557
Ending Cash and Investments					
5081000	Reserved	-	85,739	-	-
5088000	Unreserved	-	-	-	47,792
Total Ending Cash and Investments		-	85,739	-	47,792

City of Hoquiam
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		401 Water, Sewer & Street Fund	501 Equipment Rental
Beginning Cash and Investments			
30810	Reserved	4,431,201	1,419,748
30880	Unreserved	2,482,879	-
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	5,990	-
330	Intergovernmental Revenues	1,300,000	-
340	Charges for Goods and Services	4,772,969	255,620
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	98,295	-
Total Revenues:		6,177,254	255,620
Expenditures			
510	General Government	104,914	-
520	Public Safety	-	-
530	Utilities	3,770,782	-
540	Transportation	-	71,972
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		3,875,696	71,972
Excess (Deficiency) Revenues over Expenditures:		2,301,558	183,648
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	1,869,184	107,006
Total Other Increases in Fund Resources:		1,869,184	107,006
Other Decreases in Fund Resources			
594-595	Capital Expenditures	2,832,001	-
591-593, 599	Debt Service	1,006,450	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	231,131	-
586 / 589	Custodial Activities	-	-
581	Other Uses	-	170,507
Total Other Decreases in Fund Resources:		4,069,582	170,507
Increase (Decrease) in Cash and Investments:		101,160	120,147
Ending Cash and Investments			
5081000	Reserved	3,786,460	1,539,895
5088000	Unreserved	3,228,781	-
Total Ending Cash and Investments		7,015,240	1,539,895

City of Hoquiam
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	Pension Trust	Agency
308	Beginning Cash and Investments	71,805	43,497	28,308
388 & 588	Prior Period Adjustment, Net	-	-	-
310-390	Additions	921,403	397,221	524,183
510-590	Deductions	938,487	405,370	533,117
	Net Increase (Decrease) in Cash and Investments:	(17,083)	(8,149)	(8,934)
508	Ending Cash and Investments	54,722	35,348	19,373

The accompanying notes are an integral part of this statement.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 1 – Summary of Significant Accounting Policies

The City of Hoquiam was incorporated on May 21, 1890 and operates under the laws of the state of Washington applicable to a Code City with a Mayor- Council form of government. The City is a general purpose local government and provides police, fire, ambulance, water treatment and distribution, sewage collection and treatment, street maintenance, planning and zoning, and recreation services.

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

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

A. Fund Accounting

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

Governmental Fund Types:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary Fund Types:

Enterprise Funds

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

Internal Service Funds

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

Fiduciary Fund Types:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Budget

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

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

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Number	Fund Name	Budget	Expenditures	Difference
001	General Fund	\$16,812,480	\$7,376,090	\$9,436,390
101	Cemetery	\$436,425	\$173,909	\$262,516
102	Mausoleum	\$215,440	\$9,773	\$205,667
103	Cemetery Equipment Reserve	\$5,840	\$0	\$5,840
104	Cemetery Preneed	\$219,445	\$5,374	\$214,071
106	Street	\$798,490	\$367,711	\$430,779
107	Arterial Street	\$247,405	\$296	\$247,109
108	Paths & Trails	\$19,040	\$0	\$19,040
109	Ambulance	\$4,005,555	\$2,184,638	\$1,820,917
111	Flood Control	\$22,465	\$0	\$22,465
112	Tourism Fund	\$58,060	\$2,794	\$55,266
114	Cum. Reserve General Capital	\$149,750	\$0	\$149,750
	Community Development			
130	Repay	\$237,890	\$33,725	\$204,165
209	2013 Fire Truck	\$195,800	\$96,700	\$99,100
213	1989 LTD GO - City Hall Ren.	\$50,965	\$25,481	\$25,484
302	Sidewalk Construction	\$689,635	\$57,166	\$632,469
401	Water, Sewer, Storm	\$18,599,425	\$7,753,435	\$10,845,990
402	Watershed Reserve	\$8,300,870	\$2,544,898	\$5,755,972
404	Transmission Line Reserve	\$437,285	\$0	\$437,285
410	USDA Loan Repayment	\$709,235	\$326,288	\$382,947
417	Landfill Postclosure	\$29,515	\$21,919	\$7,596
501	Equipment Rental	\$167,500	\$71,972	\$95,528
505	Equipment Rental Reserve	\$2,369,500	\$179,507	\$2,189,993
602	Cem/Maus Endowment	\$569,955	\$88,534	\$481,421
611	Fire/Police Retirees' Benefits	\$716,400	\$312,999	\$403,401
612	Medical/Dental Benefits	\$228,495	\$92,371	\$136,124
	Total	\$56,292,865	\$21,725,579	\$34,567,286

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

D. Cash and Investments

See note 2, *Deposits and Investments*.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

E. Capital Assets

Capital Assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 2 years. The capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

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

G. Long Term Debt

See Note 5, *Debt Service Requirements*.

H. Other Financing Sources or Uses

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

I. Risk Management

See Note 7, *Risk Management*.

J. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

General Funds (\$99,083)

By the authority of RCW 69.50, the City obtains funds obtained through seizures involving violations of the Washington State Uniformed Controlled Substance Act. If these funds are eventually forfeited, the City accounts for them in a Drug Fund account (\$897).

Expenditures from this account are limited to the exclusive use of enforcing the uniformed controlled substance act.

The City signed the Equitable Sharing Agreement with the United States Department of Justice and occasionally receives funds from forfeitures involving Federal violations involving the Controlled Substances Act. The City accounts for these funds in the Federal Drug Funds Account (\$16,396). Expenditures from this account are limited to the exclusive use of enforcing the Controlled Substances Act.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

By the authority of RCW 3.50.100, 3.62.020 and 3.62.040 the City created the Restricted Court Account (\$22,504) for interest received on municipal court contracts, notes, taxes and accounts. The expenditures are restricted to funding the courts.

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

The Landfill Equipment Reserve Fund was closed in 1990, and the residual equity in the fund was transferred to the Landfill Post-closure Fund. The reserves in the Landfill Post-Closure Fund (\$7,722) are anticipated to fully pay for the post-closure costs.

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

Cemetery Funds (\$4,904)

The City Council, by Ordinance, created an Equipment Reserve Fund (\$4,904) from the initial sale of crypts and niches in the mausoleum for the purpose of maintaining the Sunset Memorial Park Mausoleum and associated equipment.

Street Funds (\$18,134)

By the authorization of RCW 47.30.050 cities are required to spend 0.42% of their gas tax receipts on paths and trails. The City created the Paths and Trails Fund (\$18,134) for this purpose.

Public Works Funds (\$3,786,459)

The City Council, by Ordinance, created the Watershed Fund (\$3,280,519) for proceeds from the sale of watershed forest products. The funds are restricted to the operation and maintenance of watershed lands and the capital expenditures for the water and sewer departments.

The City Council, by Ordinance, created the Water Capital fund (\$70,141) from new connection proceeds to fund capital expenditures for the water department.

The City Council, by Ordinance, created the Sewer Capital Fund (\$55,874) from new connection proceeds to fund capital expenditures for the sewer department.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

The City Council, by Ordinance, created the USDA Loan Repayment Fund (\$56,664) for the purpose of paying the principal and interest on the USDA Sewer Bonds.

The City Council, by Ordinance, created the USDA Loan Reserve Fund (\$293,381) from sewer revenues as a reserve to secure the payment of principal and interest on bonds issued for the USDA sewer bonds.

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

Equipment Rental (\$1,539,895)

The City Council, by Ordinance, created an Equipment Rental Reserve Fund (\$1,539,895) where each department can transfer funds to pay the costs of purchasing new equipment and replacing used equipment

Note 2 – Deposits and Investments

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

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

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

Type of Investment	Investments
L.G.I.P.	\$11,138,022
Timberland Bank – CD's	\$580,000
Total	\$11,718,022

Note 3 – Property Tax

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

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

The city's regular levy for the 2017 year was \$3.20 per \$1,000 on an assessed valuation of \$414,474,660 for a total regular levy of \$1,326,625 and had an additional regular levy set at \$0.50 per \$1,000 for Emergency Medical Services for a total levy of \$207,237. The City has two special levies on an assessed valuation of \$410,161,185, for the debt service on an aerial ladder truck set at \$0.26 per \$1,000 for a total levy of \$107,748 and a GO Bond for the purchase of a new

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 3 – Property Tax (Continued)

ambulance and reconditioning existing ambulances set at \$0.22 per \$1,000 for a total levy of \$89,140.

Note 4 – Interfund Loans and Advances

The following table displays interfund loan activity during 2017:

Borrowing Fund	Lending Fund	Balance 1/1/2017	New Loans	Repayments	Balance 12/31/17
General Fund	Watershed	\$404,007	\$0	\$202,004	\$202,003
Ambulance	ER&R	\$308,456	\$0	\$102,306	\$206,150
Ambulance	ER&R	\$0	\$170,507	\$0	\$170,507
Total		\$712,463	\$170,507	\$304,310	\$578,660

Note 5 – Debt Services 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, 2017.

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

	Principal	Interest	Total Debt
2018	\$831,929	\$266,721	\$1,098,650
2019	\$837,470	\$255,221	\$1,092,690
2020	\$822,397	\$243,727	\$1,066,124
2021	\$827,073	\$232,711	\$1,059,784
2022	\$816,067	\$221,534	\$1,037,601
2022-2026	\$4,196,543	\$940,540	\$5,137,083
2027-2031	\$3,986,451	\$683,185	\$4,669,636
2032-2036	\$1,148,491	\$510,952	\$1,659,443
2037-2041	\$1,251,152	\$380,288	\$1,631,440
2042-2046	\$1,396,410	\$235,030	\$1,631,440
2047-2051	\$1,279,236	\$74,543	\$1,353,779
2052-2056	\$80,337	\$1,609	\$81,946
Total	\$17,473,556	\$4,046,060	\$21,519,616

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 6 Pension Plans

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

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

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

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

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

At June 30, 2017, the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$6,946	0.001155%	\$54,806
PERS 1 UAAL	\$113,516	0.018871%	\$895,444
PERS 2/3	\$148,269	0.024275%	\$843,440
LEOFF 1	-	0.052459%	(\$795,918)
LEOFF 2	\$171,481	0.108551%	(\$1,506,336)

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.

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 7 – Risk Management

The city of Hoquiam is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 161 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

Note 8 – Joint Venture

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

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

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Note 8 – Joint Venture (cont.)

In 2017, the City received \$980 as its portion of the money collected from the auction of assets seized in drug-related cases and from court ordered payments paid by defendants in drug related cases. Expenditures for the program totaled \$145,181.

NOTE 9 – Landfill Post Closure

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

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

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

NOTE 10 – Other Disclosures

OPEB

The City has a commitment to pay for post-employment benefits for employees that belong to LEOFF1. These benefits include medical, dental, vision and nursing care. Thirty two retirees received benefits during the year and \$312,999 was paid out for those benefits during the year.

Construction Commitment

The City has active construction projects as of December 31, 2017. The projects include: Simpson Ave Water Line Replacement, Ontario Storm & Simpson Water Phase II, Ramer Street Pump Station and the Police Station Roof.

At year-end the City's commitments with contractors are as follows:

Project	Total Contract	Paid to Date	Remaining Commitment
Simpson Ave Water Line Replacement	\$1,324,531	\$0	\$1,324,531
Ontario Storm & Simpson Water Phase II	\$800,768	\$0	\$800,768
Ramer Street Pump Station	\$1,365,033	\$1,090,952	\$274,081

CITY OF HOQUIAM

Notes to the Financials - January 1, 2017 to December 31, 2017

Police Station Roof	\$109,696	\$104,652	\$5,045
Total	\$3,600,029	\$1,195,604	\$2,404,425

NOTE 10 – Other Disclosures (Cont.)

- Simpson Ave Water Line Replacement – This project will be paid out of the Watershed Reserve fund.
- Ontario Storm & Simpson Water Phase II – This project will be paid out of the Watershed Reserve fund.
- Ramer Street Pump Station – The City received a \$1.3 million grant from the Chehalis Basin Flood Authority to address flooding in the Ramer Storm Drainage Basin.
- Police Station Roof – This project will be funded by the general fund – police capital outlay.

City of Hoquiam
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	City Hall Refunding	7/1/2019	70,767	-	22,548	48,219
263.81	Timberland Regional Library District Loan	12/31/2021	95,268	-	17,945	77,323
263.98	Landfill Postclosure		29,513	128	21,919	7,722
251.12	Aerial Ladder Truck	6/1/2028	905,000	-	55,000	850,000
Total General Obligation Debt/Liabilities:			1,100,548	128	117,412	983,264
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	CERB Loan - Sewer on 5th Street	7/1/2020	20,000	-	5,000	15,000
252.11	Water & Sewer Revenue Bonds - Sewer Lagoon	12/1/2056	6,548,180	-	124,808	6,423,372
263.82	DOE Loan - WWTP Plan	5/31/2033	382,360	-	18,125	364,235
263.82	PWTF Water Main	6/1/2034	8,881,630	-	601,977	8,279,653
252.11	Water & Sewer Revenue Bonds - Sewer Force Main	1/24/2054	1,441,891	-	26,136	1,415,755
259.12	Compensated Absences		462,310	24,313	-	486,623
264.30	Net Pension Liability		2,360,096	268,730	835,136	1,793,690
Total Revenue and Other (non G.O.) Debt/Liabilities:			20,096,467	293,043	1,611,182	18,778,328
Total Liabilities:			21,197,015	293,171	1,728,594	19,761,592

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