



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Montesano

For the period January 1, 2020 through December 31, 2022

Published January 22, 2024

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

January 22, 2024

Mayor and City Council
City of Montesano
Montesano, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Montesano January 1, 2020 through December 31, 2022

Mayor and City Council
City of Montesano
Montesano, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Montesano, as of and for the years ended December 31, 2022, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 16, 2024.

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 state law 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.

REPORT ON 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 cursive script that reads "Pat McCarthy". The signature is written in black ink and is positioned above the printed name.

Pat McCarthy, State Auditor

Olympia, WA

January 16, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Montesano January 1, 2020 through December 31, 2022

Mayor and City Council
City of Montesano
Montesano, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Montesano, as of and for the years ended December 31, 2022, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Montesano, and its changes in cash and investments, for the years ended December 31, 2022, 2021 and 2020, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Montesano, as of December 31, 2022, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 state law and the BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2024 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

January 16, 2024

FINANCIAL SECTION

City of Montesano January 1, 2020 through December 31, 2022

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2022
Fund Resources and Uses Arising from Cash Transactions – 2021
Fund Resources and Uses Arising from Cash Transactions – 2020
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2022
Schedule of Liabilities – 2021
Schedule of Liabilities – 2020

City of Montezano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		Total for All Funds (Memo Only)	001 General Fund	101 Ambulance Fund	103 Hotel/motel Tax (ord. #1278)
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,550,701	1,411,761	34,521	33,232
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	3,538,841	2,783,591	623,893	21,989
320	Licenses and Permits	102,970	102,970	-	-
330	Intergovernmental Revenues	2,064,771	997,442	1,125	6,900
340	Charges for Goods and Services	3,565,508	86,316	610,819	-
350	Fines and Penalties	57,553	25,747	-	-
360	Miscellaneous Revenues	198,430	119,570	64,235	-
Total Revenues:		9,528,073	4,115,636	1,300,072	28,889
Expenditures					
510	General Government	975,790	941,881	-	22,509
520	Public Safety	3,048,778	1,753,317	1,272,846	-
530	Utilities	1,966,792	-	-	-
540	Transportation	188,276	188,276	-	-
550	Natural/Economic Environment	384,550	142,699	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	163,694	163,694	-	-
Total Expenditures:		6,727,880	3,189,867	1,272,846	22,509
Excess (Deficiency) Revenues over Expenditures:		2,800,193	925,769	27,226	6,380
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,679,074	633,349	502,500	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	1,705,467	100	24,254	-
Total Other Increases in Fund Resources:		3,384,541	633,449	526,754	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,316,408	79,697	26,392	-
591-593, 599	Debt Service	569,228	105,632	158,924	-
597	Transfers-Out	1,679,074	1,040,000	116,510	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	147,883	13,551	33,332	-
Total Other Decreases in Fund Resources:		4,712,593	1,238,880	335,158	-
Increase (Decrease) in Cash and Investments:		1,472,141	320,338	218,822	6,380
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	157,585	-	-	-
50851	Assigned	3,358,160	225,000	253,346	39,612
50891	Unassigned	1,507,101	1,507,101	-	-
Total Ending Cash and Investments		5,022,846	1,732,101	253,346	39,612

The accompanying notes are an integral part of this statement.

City of Montesano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		105 Municipal Court Drug Fund	106 Re Excise Restricted Revenue	310 Street Capital Projects	312 WWTP Riverbank Revetment
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,485	67,168	7,938	13,982
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	109,368	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	1,059,304	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	-	-
Total Revenues:		-	109,368	1,059,304	-
Expenditures					
510	General Government	-	10,082	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	10,082	-	-
Excess (Deficiency) Revenues over Expenditures:		-	99,286	1,059,304	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	250,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	250,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	1,195,767	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	60,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	60,000	1,195,767	-
Increase (Decrease) in Cash and Investments:		-	39,286	113,537	-
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	3,485	106,454	121,475	13,982
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		3,485	106,454	121,475	13,982

City of Montezano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		401 Current Water	402 Storm Water Fund	408 Cemetery Fund	502 Unemployment Compensation
Beginning Cash and Investments					
308	Beginning Cash and Investments	1,555,955	191,926	82,845	108,395
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	2,534,700	202,870	97,173	-
350	Fines and Penalties	31,806	-	-	-
360	Miscellaneous Revenues	14,625	-	-	-
Total Revenues:		2,581,131	202,870	97,173	-
Expenditures					
510	General Government	-	-	-	1,318
520	Public Safety	-	-	-	-
530	Utilities	1,924,445	29,894	12,453	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	241,851	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,166,296	29,894	12,453	1,318
Excess (Deficiency) Revenues over Expenditures:		414,835	172,976	84,720	(1,318)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	293,225	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	1,681,113	-	-	-
Total Other Increases in Fund Resources:		1,974,338	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	988,606	25,946	-	-
591-593, 599	Debt Service	304,672	-	-	-
597	Transfers-Out	295,477	147,047	20,040	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	101,000	-	-	-
Total Other Decreases in Fund Resources:		1,689,755	172,993	20,040	-
Increase (Decrease) in Cash and Investments:		699,418	(17)	64,680	(1,318)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	107,077
50851	Assigned	2,255,370	191,910	147,526	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		2,255,370	191,910	147,526	107,077

City of Montesano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		503 Long Term Care
		<hr/>
Beginning Cash and Investments		
308	Beginning Cash and Investments	39,493
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	33,630
350	Fines and Penalties	-
360	Miscellaneous Revenues	-
Total Revenues:		<hr/> 33,630
Expenditures		
510	General Government	-
520	Public Safety	22,615
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 22,615
Excess (Deficiency) Revenues over Expenditures:		<hr/> 11,015
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> -
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		<hr/> 11,015
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	50,508
50851	Assigned	-
50891	Unassigned	-
Total Ending Cash and Investments		<hr/> 50,508

City of Montezano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 General Fund	101 Ambulance Fund	103 Hotel/motel Tax (ord. #1278)
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,192,387	942,605	19,876	34,524
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	3,328,813	2,602,731	603,397	14,350
320	Licenses and Permits	60,050	60,050	-	-
330	Intergovernmental Revenues	1,075,447	954,294	1,260	-
340	Charges for Goods and Services	3,255,424	53,455	447,085	-
350	Fines and Penalties	41,913	34,521	-	-
360	Miscellaneous Revenues	134,196	61,174	21,344	-
Total Revenues:		7,895,843	3,766,225	1,073,086	14,350
Expenditures					
510	General Government	962,446	945,586	-	15,642
520	Public Safety	2,594,359	1,315,145	1,255,610	-
530	Utilities	1,871,704	-	-	-
540	Transportation	164,910	164,910	-	-
550	Natural/Economic Environment	373,678	41,882	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	280,722	280,722	-	-
Total Expenditures:		6,247,819	2,748,245	1,255,610	15,642
Excess (Deficiency) Revenues over Expenditures:		1,648,024	1,017,980	(182,524)	(1,292)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	947,577	286,132	502,500	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	594,997	14,171	-	-
Total Other Increases in Fund Resources:		1,542,574	300,303	502,500	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,173,308	179,668	2,536	-
591-593, 599	Debt Service	571,010	107,768	156,157	-
597	Transfers-Out	947,577	560,000	112,637	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	140,399	1,698	34,002	-
Total Other Decreases in Fund Resources:		2,832,294	849,134	305,332	-
Increase (Decrease) in Cash and Investments:		358,304	469,149	14,644	(1,292)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	147,888	-	-	-
50851	Assigned	1,991,052	-	34,521	33,232
50891	Unassigned	1,411,761	1,411,761	-	-
Total Ending Cash and Investments		3,550,701	1,411,761	34,521	33,232

The accompanying notes are an integral part of this statement.

City of Montesano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		105 Municipal Court Drug Fund	106 Re Excise Restricted Revenue	310 Street Capital Projects	312 WWTP Riverbank Revetment
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,467	8,833	(58,934)	13,982
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	108,335	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	119,893	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	18	-	-	-
360	Miscellaneous Revenues	-	-	-	-
Total Revenues:		18	108,335	119,893	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		18	108,335	119,893	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	140,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	140,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	193,022	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	50,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	50,000	193,022	-
Increase (Decrease) in Cash and Investments:		18	58,335	66,871	-
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	3,485	67,168	7,938	13,982
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		3,485	67,168	7,938	13,982

City of Montezano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		401 Current Water	402 Storm Water Fund	408 Cemetery Fund	502 Unemployment Compensation
Beginning Cash and Investments					
308	Beginning Cash and Investments	1,999,122	61,827	32,352	105,266
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	2,455,461	190,859	74,934	-
350	Fines and Penalties	7,374	-	-	-
360	Miscellaneous Revenues	32,331	15,000	-	4,347
Total Revenues:		2,495,166	205,859	74,934	4,347
Expenditures					
510	General Government	-	-	-	1,218
520	Public Safety	-	-	-	-
530	Utilities	1,831,375	15,888	24,441	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	331,796	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,163,171	15,888	24,441	1,218
Excess (Deficiency) Revenues over Expenditures:		331,995	189,971	50,493	3,129
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	18,945	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	580,826	-	-	-
Total Other Increases in Fund Resources:		599,771	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	768,211	29,871	-	-
591-593, 599	Debt Service	307,085	-	-	-
597	Transfers-Out	194,940	30,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	104,699	-	-	-
Total Other Decreases in Fund Resources:		1,374,935	59,871	-	-
Increase (Decrease) in Cash and Investments:		(443,169)	130,100	50,493	3,129
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	108,395
50851	Assigned	1,555,955	191,926	82,845	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		1,555,955	191,926	82,845	108,395

City of Montezano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		503 Long Term Care
		<hr/>
Beginning Cash and Investments		
308	Beginning Cash and Investments	29,467
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	33,630
350	Fines and Penalties	-
360	Miscellaneous Revenues	-
Total Revenues:		<hr/> 33,630
Expenditures		
510	General Government	-
520	Public Safety	23,604
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 23,604
Excess (Deficiency) Revenues over Expenditures:		<hr/> 10,026
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> -
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		<hr/> 10,026
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	39,493
50851	Assigned	-
50891	Unassigned	-
Total Ending Cash and Investments		<hr/> 39,493

City of Montezano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		Total for All Funds (Memo Only)	001 General Fund	101 Ambulance Fund	103 Hotel/motel Tax (ord. #1278)
Beginning Cash and Investments					
308	Beginning Cash and Investments	2,153,482	571,721	13,638	26,214
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	2,979,850	2,443,646	466,825	13,745
320	Licenses and Permits	49,082	49,082	-	-
330	Intergovernmental Revenues	2,220,677	500,613	44,292	-
340	Charges for Goods and Services	2,824,015	48,611	532,064	-
350	Fines and Penalties	31,732	25,669	-	-
360	Miscellaneous Revenues	238,406	204,450	15,829	-
Total Revenues:		8,343,762	3,272,071	1,059,010	13,745
Expenditures					
510	General Government	947,537	938,937	-	5,436
520	Public Safety	2,645,725	1,260,747	1,360,699	-
530	Utilities	1,848,472	-	-	-
540	Transportation	221,086	221,086	-	-
550	Natural/Economic Environment	390,706	65,919	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	143,917	143,917	-	-
Total Expenditures:		6,197,443	2,630,606	1,360,699	5,436
Excess (Deficiency) Revenues over Expenditures:		2,146,319	641,465	(301,689)	8,309
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	912,448	387,419	505,734	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	2,019,917	18,171	100,972	-
Total Other Increases in Fund Resources:		2,932,365	405,590	606,706	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,419,700	41,515	9,234	-
591-593, 599	Debt Service	577,084	109,904	158,257	-
597	Transfers-Out	912,448	496,500	128,990	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	130,547	28,253	2,294	-
Total Other Decreases in Fund Resources:		4,039,779	676,172	298,775	-
Increase (Decrease) in Cash and Investments:		1,038,905	370,883	6,242	8,309
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	134,733	-	-	-
50851	Assigned	2,173,983	-	19,876	34,524
50891	Unassigned	883,671	942,605	-	-
Total Ending Cash and Investments		3,192,387	942,605	19,876	34,524

The accompanying notes are an integral part of this statement.

City of Montesano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		105 Municipal Court Drug Fund	106 Re Excise Restricted Revenue	310 Street Capital Projects	312 WWTP Riverbank Revetment
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,385	15,947	258	71,044
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	55,634	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	727,084	908,719
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	82	-	-	-
360	Miscellaneous Revenues	-	-	-	-
Total Revenues:		82	55,634	727,084	908,719
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		82	55,634	727,084	908,719
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	62,748	786,276	965,781
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	62,748	786,276	965,781
Increase (Decrease) in Cash and Investments:		82	(7,114)	(59,192)	(57,062)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	3,467	8,833	-	13,982
50891	Unassigned	-	-	(58,934)	-
Total Ending Cash and Investments		3,467	8,833	(58,934)	13,982

City of Montezano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		401 Current Water	402 Storm Water Fund	408 Cemetery Fund	502 Unemployment Compensation
Beginning Cash and Investments					
308	Beginning Cash and Investments	1,280,664	50,947	4,568	94,980
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	39,969	-	-	-
340	Charges for Goods and Services	2,034,304	116,750	58,656	-
350	Fines and Penalties	5,981	-	-	-
360	Miscellaneous Revenues	4,677	-	-	13,450
Total Revenues:		2,084,931	116,750	58,656	13,450
Expenditures					
510	General Government	-	-	-	3,164
520	Public Safety	-	-	-	-
530	Utilities	1,816,380	17,112	14,980	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	324,787	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,141,167	17,112	14,980	3,164
Excess (Deficiency) Revenues over Expenditures:		(56,236)	99,638	43,676	10,286
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	19,295	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	1,900,774	-	-	-
Total Other Increases in Fund Resources:		1,920,069	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	465,387	88,759	-	-
591-593, 599	Debt Service	308,923	-	-	-
597	Transfers-Out	271,067	-	15,891	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	100,000	-	-	-
Total Other Decreases in Fund Resources:		1,145,377	88,759	15,891	-
Increase (Decrease) in Cash and Investments:		718,456	10,879	27,785	10,286
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	105,266
50851	Assigned	1,999,122	61,827	32,352	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		1,999,122	61,827	32,352	105,266

City of Montesano
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		503 Long Term Care
		<hr/>
Beginning Cash and Investments		
308	Beginning Cash and Investments	20,116
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	33,630
350	Fines and Penalties	-
360	Miscellaneous Revenues	-
Total Revenues:		<hr/> 33,630
Expenditures		
510	General Government	-
520	Public Safety	24,279
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 24,279
Excess (Deficiency) Revenues over Expenditures:		<hr/> 9,351
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> -
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		<hr/> 9,351
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	29,467
50851	Assigned	-
50891	Unassigned	-
Total Ending Cash and Investments		<hr/> 29,467

City of Montesano
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		Custodial
308	Beginning Cash and Investments	3,034
388 & 588	Net Adjustments	-
310-390	Additions	29,395
510-590	Deductions	27,796
	Net Increase (Decrease) in Cash and Investments:	1,599
508	Ending Cash and Investments	4,637

The accompanying notes are an integral part of this statement.

City of Montesano
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Custodial
308	Beginning Cash and Investments	1,229
388 & 588	Net Adjustments	-
310-390	Additions	45,166
510-590	Deductions	43,360
	Net Increase (Decrease) in Cash and Investments:	1,806
508	Ending Cash and Investments	3,034

The accompanying notes are an integral part of this statement.

City of Montesano
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		Custodial
308	Beginning Cash and Investments	9,611
388 & 588	Net Adjustments	-
310-390	Additions	33,102
510-590	Deductions	41,485
	Net Increase (Decrease) in Cash and Investments:	(8,383)
508	Ending Cash and Investments	1,229

The accompanying notes are an integral part of this statement.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

Note 1 - Summary of Significant Accounting Policies

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

The City of Montesano 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 (see *Notes to 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 presented using classifications that are similar to the ending balance classification 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any inter-fund activities are not eliminated. 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.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

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.

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 a custodian on behalf of others.

Custodial 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 of Montesano also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3 - *Deposits and Investments*.

D. Capital Assets

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

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

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. 24-hour Firefighters may accumulate up to 288 hours of vacation leave that is payable upon separation or retirement. Sick leave may be accumulated up to 1040 hours. Upon retirement or separation employees receive payment for unused sick leave at a variable reduced rate based on years of service. Payments are recognized as expenditures when paid. The total liability for compensated absences as of December 31, 2022 is \$333,664.

F. Long-Term Debt

See Note 7 – *Long-Term Debt*

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the City intends to use the most restricted resources first.

Fund Name	Portion of Ending Balance Restricted	Portion of Ending Balance Committed	Combined	Reason for Restriction or Commitment
Unemployment Compensation		107,077	107,077	For unemployment self-insurance
Long-term Care		50,508	50,508	For LEOFF1 retiree benefits
Agency Funds/Non-revenue	4,637		4,637	Funds held that will be passed along to other entities
<i>Totals</i>	4,637	157,585	162,222	
	308.31	308.41		

Restrictions and commitments of Ending Cash and Investments consist of unemployment self-insurance, LEOFF1 retiree benefits and fiduciary funds totaling \$162,222.

Note 2 - Budget Compliance

The City of Montesano adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	\$ 4,521,038	\$ 4,428,747	\$ 92,291
101 - Ambulance Fund	\$ 1,675,892	\$ 1,608,001	\$ 67,891
103 - Hotel/motel Tax (ord. #1278)	\$ 28,000	\$ 22,509	\$ 5,491
106 - Re Excise Restricted Revenue	\$ 70,200	\$ 70,082	\$ 118
310 - Street Capital Projects	\$ 1,384,000	\$ 1,195,767	\$ 188,233
401 - Current Water			
Current Water	\$ 2,477,401	\$ 2,329,805	\$ 147,596
Forest -Water ShedReserve	\$ 957,066	\$ 1,003,494	\$ (46,428)
WWTP Revenue Debt Reserve Fund	\$ 340,000	\$ 29,975	\$ 310,025
Water System Reserve Fund	\$ 857,000	\$ 492,779	\$ 364,221
Total 401 - Current Water	\$ 4,631,467	\$ 3,856,053	\$ 775,414
402 - Storm Water Fund	\$ 369,726	\$ 202,886	\$ 166,840
408 - Cemetery Fund	\$ 45,840	\$ 32,492	\$ 13,348
502 - Unemployment Compensation		\$ 1,318	\$ (1,318)
503 - Long Term Care	\$ 30,000	\$ 22,615	\$ 7,385
630 - Agency Funds/non Revenue		\$ 27,793	\$ (27,793)

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

Fund 502 expenditures were not appropriated. These were unemployment claims.
Fund 630 expenditures were not appropriated. These are pass-through custodial funds.

Note 3 – Deposits and Investments

Investments are reported at fair value. Deposits and investments by type at December 31, 2022 are as follows:

Type of Deposit or Investment	(City/Town/District)'s own deposits & investments	Deposits & investments held by the (City,Town/District) as custodian for other local governments, individuals, or private organizations.	Combined
Deposits	1,892,783	2,030	1,894,813
LGIP	2,879,009		2,879,009
Money Market	253,660		253,660
Agency Funds			2,030
<i>Totals</i>	5,025,452	2,030	5,027,483

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

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

Investments in the State Local Government Investment Pool (LGIP)

The City of Montesano is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the town would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City of Montesano's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the town or its agent in the government's name.

Note 4 – Environmental and Certain Asset Retirement Liabilities

The city has 4 water wells. The potential for decommissioning is low, but possible. The expected cost/liability for decommissioning is approximately \$10,000.00 per well. The city's sewage treatment plant cannot be decommissioned; it is required that we have one. It may be upgraded when the useful life is reached, but not decommissioned. It is the same for the lagoons at the sewage treatment plant.

Note 5 – Inter-fund Loans

The following table displays inter-fund loan activity during 2022:

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

Borrowing Fund	Lending Fund	Beginning Balance	New Loans	Principal Payment	Interest	Ending Balance
101	405	\$ 66,998	\$ -	\$ 33,333	\$ 669	\$ 32,996

Note 6 – Installment Purchases (Leases)

During the year ended 2022, the City of Montesano adopted guidance for the presentation and disclosure of leases, as required by the BARS Manual. The requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.

The two installment purchase/lease agreements were signed on September 1, 2017 between Umpqua Bank/Financial Pacific Leasing and City of Montesano in the amount of \$1,300,000.00. The purchase was for a fire engine, two ambulances and ancillary equipment. The ancillary equipment was put on a short-term lease from 12/1/2018 to 6/1/2022. The major equipment was a 10-year purchase agreement/lease that will be paid in full on 6/1/2028. Payments are made on June 1st and December 1st of every year. At the end of the purchase agreement/lease terms, the City of Montesano purchases equipment for \$1.00.

Year ended December 31	Total
2023	\$ 88,734.00
2024	\$ 92,273.00
2025	\$ 95,955.68
2026	\$ 99,783.88
2027	\$ 103,764.81
2028	\$ 53,424.63
TOTAL	\$ 533,936.00

Note 7 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City of Montesano and summarizes the city's debt transactions for year ended December 31, 2022.

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

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

Years	Principal	Interest	Total
2023	\$ 458,878	\$ 85,064	\$ 543,942
2024	\$ 466,843	\$ 72,554	\$ 539,397
2025	\$ 475,142	\$ 59,710	\$ 534,853
2026	\$ 483,789	\$ 46,519	\$ 530,308
2027-31	\$ 1,266,902	\$ 79,252	\$ 1,346,154
2032-33	\$ 160,000	\$ 6,408	\$ 166,408
TOTAL	\$ 3,311,554	\$ 349,507	\$ 3,661,062

Note 8 – OPEB Plans

Plan Name	Description	Contribution Rates	Employer Contribution
Northwest Firefighters Trust & AWC	The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the city as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2022, the plan had 2 members, both retirees. As of December 31, 2022, the city's total OPEB liability was \$916,221 as calculated using the alternative measurement method. For the year ended December 31, 2022, the city paid \$22,615 in benefits.		

Note 9 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City of Montesano'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 2/3 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 (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

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

The City of Montesano 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 ACFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2022 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

Plan Type	Employer Contributions	Allocation Percentage	NPL	NPA
PERS 1			\$ -	\$ -
PERS 1 UAAL	\$50,899.00	0.0083050%	\$ 231,242.00	\$ -
PERS 2/3	\$86,740.00	0.0107970%	\$ -	\$ (400,437.00)
LEOFF 1		0.0033840%	\$ -	\$ (97,074.00)
LEOFF 2	\$69,180.00	0.0334160%	\$ -	\$ (908,146.00)
VFFRPF	\$630.00	0.3300000%	\$ -	\$ (93,271.00)
		Total	\$ 231,242.00	\$ (1,498,928.00)

LEOFF Plan 1

The City of Montesano 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 of Montesano 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.

B. Defined Contribution Pension Plans

The City of Montesano matches up to \$40 per month into a deferred compensation plan for members of the non-uniform Teamsters bargaining unit. The total amount contributed in 2022 was \$9,600.00.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

C. Voluntary Employees' Beneficiary Association (VEBA)

The City of Montesano participates in a VEBA HRA account on behalf of each bargaining IAFF #1862-unit member. Effective 1-1-22 the City will pay \$3000 into each member's VEBA Account through BPAS.

Note 10 - 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 of Montesano. 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 2022 was \$2.1845731 per \$1,000 on an assessed valuation of \$454,672,341 for a total regular levy of \$993,265.

Note 11 – Risk Management

Nicholson & Associates Insurance, LLC, is the contracted independent agency and brokerage firm for the City of Montesano. The all lines licensed agent, Karen Nicholson Miltenberger, is the agent on record. Her focus in the firm is risk manager for municipal business and emergency services. She has held the designation of Certified Insurance Counselor for 25 years. She is seasoned in insurance application and placement, risk management prevention training, and is well known in the insurance industry having more than thirty years' experience.

The City of Montesano's insurance coverage is provided by Travelers Companies, Public Sector Services (NYSE:TRV), a leading provider of insurance and surety products, additionally offering risk management services to a variety of businesses including municipalities, organizations and individuals. Travelers A.M. Best financial strength rating which reflects Travelers claims paying ability is A+ (A=the 2nd highest of 16).

Nicholson's firm utilizes risk management programs such as Employment Liability Training, Sensitivity in the Work Place, attorney lead seminars in Work Place Harassment Prevention, Employment Practices Training and the required training for Elected Officials for WA State. Additionally, the accredited and WA State required Emergency Service "EVIP Training" is made available as needed to keep in compliance with recertification for train the trainer, and Work Place Harassment Prevention presentations. In-house and contracted services are available with a variety of vendors for risk management consultation and employment practices training. Human resource assistance is available online via web access. Travelers Companies have many

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

loss control field services, claims and litigation administration, and coordinate with our own legal counsel.

The Fire Department of Montesano is insured by Continental Western Insurance Group (Berkley Group) through a specialty product “Fire EMS Pak” on a separate policy helping to keep the liability limits from becoming diluted. Continental Western Insurance Group’s A.M. Best rating is A+. The program was chosen because of its unique and hard to find coverage that has competitive premiums. They also have a 3-Year Rate Guarantee that we have enjoyed.

Having two separate insurance programs provides higher liability limits than previous insurance was provided by self-insured “Pools”. Traveler’s property and casualty insurance coverage is written on an occurrence basis, with some endorsements written on Claims Made Form, each with separate variety and applicable deductibles, per schedule on file. VFIS policy and endorsements are issued on an all occurrence form.

City of Montesano - Travelers Policy Overview

Deluxe Property Coverage includes Real and Business Personal Property, Inland Marine, (Contractors, Mobile Equipment, scheduled items such as traffic control signals and street lights), Computers, Mechanical Breakdown (Boiler & Machinery) and Crime with additional coverage and extensions for a premier public sector service insurance program. Cyber Liability is included along with Flood and Earthquake per schedule on file. Replacement Cost coverage is included on scheduled buildings on file. Business Income and Extra Expense are also included.

In the General Liability Section, coverage is provided for Products and Completed Operations; Aggregate at 2 Million (Plus 10 Million Umbrella Liability), Personal and Advertising Injury Liability at 1 Million

each Occurrence limit 1 Million. Included is Professional (E&O), Employment Related Practices, Cemetery

Professional Services Liability (E&O) with General Liability at 1 Million each Occurrence/2 Million Aggregate with the Umbrella Liability Limits of 10 Million Each Occurrence/10 Million Aggregate.

The Auto Liability policies have no aggregate. Automobile physical damage is on a scheduled basis with the limit chosen by the City per the schedule on file.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

Fidelity Blanket Coverage is included for Dishonest Acts with Faithful Performance included for Police and Public Officials, E&O, Stop Gap, Employers Liability and Employee Benefits Liability.

City of Montesano Fire – VFIS Overview
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The City of Montesano Fire Department is provided coverage with a separate policy further increasing liability limits and protection through VFIS. The package of specialty coverage insures property on a Guaranteed Replacement Cost, replacement cost, actual cash value or functional replacement cost basis.

The General Liability Coverage for Products and Completed Operations with limits of 1 Million Each Occurrence/\$3 Million Aggregate, with an Umbrella Policy that increases the limit of insurance coverage \$4 Million Ea Occ/Agg. Professional Liability (E&O) is included in this with “first dollar defense” and defense costs are paid outside of the liability limits and are unlimited for coverage within the policy.

VFIS provides PRIMARY Auto Liability for members of the District responding to an emergency using their own personal auto, Physical Damage Coverage per Schedule on file for city owned vehicles. Also in the package; Employment Practices Liability, Management Liability, Medical Malpractice, Employers Liability (Stop Gap), Employee Benefits including Cyber Extortion expenses and Crime. Also included in coverage is Blanket Fidelity Bond (Employee Dishonesty) and Faithful Performance, Alteration, and Embezzlement.

The City has taken advantage of the financing convenience and no fee charge for installment payment with both, Travelers and VFIS.

The City of Montesano self-insures for unemployment compensation. Each payroll, funds are transferred to the Unemployment Compensation reserve fund to cover claims. As of December 31, 2022 the fund balance as was \$107,076.92. In 2022 the City of Montesano paid out claims totaling \$1,310.88.

Note 12 – Other Disclosures

Pending/closed litigation:

1. *Claims alleged by Railroad.*

The city has been in discussion with Puget Sound and Pacific Railroad regarding a lease dispute. The lease at issue was executed in 1977, and the events since its execution are not entirely clear.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2022

This matter could lead to litigation but it is unclear at this time. If the dispute was to proceed to litigation, and the city was unsuccessful, damages could be in the range of \$50,000. If I receive additional information or if circumstances change, I will update this letter accordingly.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

Note 1 - Summary of Significant Accounting Policies

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

The City of Montesano 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 (see *Notes to 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 presented using classifications that are similar to the ending balance classification 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

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.

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 a custodian on behalf of others.

Custodial 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 of Montesano also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 4 - *Deposits and Investments*.

D. Capital Assets

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

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

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. 24-hour Firefighters may accumulate up to 288 hours of vacation leave that is payable upon separation or retirement. Sick leave may be accumulated up to 1040 hours. Upon retirement or separation employees receive payment for unused sick leave at a variable reduced rate based on years of service. Payments are recognized as expenditures when paid. The total liability for compensated absences as of December 31, 2021 was \$348,915.

F. Long-Term Debt

See Note 6 – *Long-Term Debt*

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the town intends to use the most restricted resources first.

Fund Name	Portion of Ending Balance	Portion of Ending Balance	Combined	Reason for Restriction or Commitment
Unemployment Compensation		108,395	108,395	For unemployment self-insurance
Long-term Care		39,493	39,493	For LEOFF1 retiree benefits
Agency Funds/Non-revenue	3,034		3,034	Funds held that will be passed along to other entities
<i>Totals</i>	3,034	147,888	150,922	
	308.31	308.41		

Restrictions and commitments of Ending Cash and Investments consist of unemployment self-insurance, LEOFF1 retiree benefits and fiduciary funds totaling \$150,922.

Note 2 - Budget Compliance

The City of Montesano adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	\$ 3,603,198	\$ 3,597,375	\$ 5,823
101 - Ambulance Fund	\$ 1,585,064	\$ 1,560,942	\$ 24,122
103 - Hotel/motel Tax (ord. #1278)	\$ 17,000	\$ 15,642	\$ 1,358
106 - Re Excise Restricted Revenue	\$ 50,000	\$ 50,000	\$ -
310 - Street Capital Projects	\$ 295,000	\$ 193,022	\$ 101,978
401 - Current Water			
Current Water	\$ 2,417,957	\$ 2,236,968	\$ 180,989
Forest -Water ShedReserve	\$ 1,270,756	\$ 649,107	\$ 621,649
WWTP Reserve Fund	\$ 120,000	\$ 95,993	\$ 24,007
Water System Reserve Fund	\$ 559,000	\$ 556,036	\$ 2,964
Total 401 - Current Water	\$ 4,367,713	\$ 3,538,104	\$ 829,609
402 - Storm Water Fund	\$ 102,765	\$ 75,759	\$ 27,006
408 - Cemetery Fund	\$ 43,057	\$ 24,441	\$ 18,616
502 - Unemployment Compensation		\$ 1,218	\$ (1,218)
503 - Long Term Care	\$ 30,000	\$ 23,604	\$ 6,396
630 - Agency Funds/non Revenue		\$ 43,360	\$ (43,360)

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

Fund 502 expenditures were not appropriated. These were unemployment claims.

Fund 630 expenditures were not appropriated. These are pass-through custodial funds.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The City of Montesano continues to monitor the impact of the pandemic on its operations and finances. The length of time these measures will continue to be in place, and the full extent of the financial impact on the City of Montesano is unknown at this time.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

Note 4 – Deposits and Investments

Investments are reported at fair value. Deposits and investments by type at December 31, 2021 are as follows:

Type of Deposit or Investment	(City/Town/District)'s own deposits & investments	Deposits & investments held by the (City,Town/District) as custodian for other local governments, individuals, or private organizations.	Combined
Deposits	2,953,288	3,034	2,956,322
LGIP	344,505		344,505
Money market	252,908		252,908
<i>Totals</i>	3,550,701	3,034	3,553,735

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

Investments in the State Local Government Investment Pool (LGIP)

The City of Montesano is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the town would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City of Montesano's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the town or its agent in the government's name.

Note 5 – Environmental and Certain Asset Retirement Liabilities

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

The city has 4 water wells. The potential for decommissioning is low, but possible. The expected cost/liability for decommissioning is approximately \$10,000.00 per well. The city's sewage treatment plant cannot be decommissioned; it is required that we have one. It may be upgraded when the useful life is reached, but not decommissioned. It is the same for the lagoons at the sewage treatment plant.

Note 6 - Interfund Loans

The following table displays interfund loan activity during 2021:

Borrowing Fund	Lending Fund	Beginning Balance	New Loans	Payment	Ending Balance
101	405	\$ 100,000	\$ -	\$ 34,002	\$ 66,998

Note 7 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City of Montesano and summarizes the city's debt transactions for year ended December 31, 2021.

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

Years	Principal	Interest	Total
2022	470,415	97,626	568,041
2023	458,878	85,064	543,942
2024	466,843	72,554	539,397
2025	475,142	59,710	534,853
2026	483,789	46,519	530,308
2027-31	1,266,902	79,252	1,346,154
2032-36	160,000	6,408	166,408
TOTAL	3,781,969	447,134	4,229,103

Note 8 – OPEB Plans

Northwest Firefighters Trust & AWC - The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the city as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2021, the plan had 2 members, both retirees. As of December 31, 2021, the city's

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

total OPEB liability was \$1,139,627 as calculated using the alternative measurement method. For the year ended December 31, 2021, the city paid \$23,604 in benefits.

Note 9 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City of Montesano'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 2/3 and LEOFF 2.

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

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Olympia, WA 98540-8380

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

The City of Montesano 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, 2021 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

Plan Type	Employer Contributions	Allocation Percentage	NPL	NPA
PERS 1			\$ -	\$ -
PERS 1 UAAL	\$64,520.00	0.0086620%	\$ 105,783.00	\$ -
PERS 2/3	\$105,509.00	0.0111380%	\$ -	\$ (1,109,524.00)
LEOFF 1		0.0032940%	\$ -	\$ (112,838.00)
LEOFF 2	\$67,849.00	0.0343600%	\$ -	\$ (1,976,952.00)
VFFRPF	\$480.00	0.2500000%	\$ -	\$ (54,300.00)
		Total	\$443,704.00	\$ (3,253,614.00)

LEOFF Plan 1

The City of Montesano 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 of Montesano 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.

B. Defined Contribution Pension Plans

The City of Montesano matches up to \$40 per month into a deferred compensation plan for members of the non-uniform Teamsters bargaining unit. The total amount contributed in 2021 was \$9,820.00.

Note 10 - 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 of Montesano. 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 2021 was \$2.5047779 per \$1,000 on an assessed valuation of \$387,925,627 for a total regular levy of \$971,668.

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

Note 11 – Risk Management

Nicholson & Associates Insurance, LLC, is the contracted independent agency and brokerage firm for the City of Montesano. The all lines licensed agent, Karen Nicholson Miltenberger, is the agent on record. Her focus in the firm is risk manager for municipal business and emergency services. She has held the designation of Certified Insurance Counselor for 25 years. She is seasoned in insurance application and placement, risk management prevention training, and is well known in the insurance industry having more than thirty years' experience.

The City of Montesano's insurance coverage is provided by Travelers Companies, Public Sector Services (NYSE:TRV), a leading provider of insurance and surety products, additionally offering risk management services to a variety of businesses including municipalities, organizations and individuals. Travelers A.M. Best financial strength rating which reflects Travelers claims paying ability is A+ (A=the 2nd highest of 16).

Nicholson's firm utilizes risk management programs such as Employment Liability Training, Sensitivity in the Work Place, attorney lead seminars in Work Place Harassment Prevention, Employment Practices Training and the required training for Elected Officials for WA State. Additionally, the accredited and WA State required Emergency Service "EVIP Training" is made available as needed to keep in compliance with recertification for train the trainer, and Work Place Harassment Prevention presentations. In-house and contracted services are available with a variety of vendors for risk management consultation and employment practices training. Human resource assistance is available online via web access. Travelers Companies have many loss control field services, claims and litigation administration, and coordinate with our own legal counsel.

The Fire Department of Montesano is insured by Continental Western Insurance Group (Berkley Group) through a specialty product "Fire EMS Pak" on a separate policy helping to keep the liability limits from becoming diluted. Continental Western Insurance Group's A.M. Best rating is A+. The program was chosen because of its unique and hard to find coverage that has competitive premiums. They also have a 3-Year Rate Guarantee that we have enjoyed.

Having two separate insurance programs provides higher liability limits than previous insurance was provided by self-insured "Pools". Traveler's property and casualty insurance coverage is written on an occurrence basis, with some endorsements written on Claims Made Form, each with separate variety and applicable deductibles, per schedule on file. VFIS policy and endorsements are issued on an all occurrence form.

City of Montesano - Travelers Policy Overview

Deluxe Property Coverage includes Real and Business Personal Property, Inland Marine, (Contractors, Mobile Equipment, scheduled items such as traffic control signals and street lights), Computers, Mechanical Breakdown (Boiler & Machinery) and Crime with additional coverage and extensions for a premier public sector service insurance program. Cyber Liability is included along with Flood and

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

Earthquake per schedule on file. Replacement Cost coverage is included on scheduled buildings on file. Business Income and Extra Expense are also included.

In the General Liability Section, coverage is provided for Products and Completed Operations; Aggregate at 2 Million (Plus 10 Million Umbrella Liability), Personal and Advertising Injury Liability at 1 Million each Occurrence limit 1 Million. Included is Professional (E&O), Employment Related Practices, Cemetery

Professional Services Liability (E&O) with General Liability at 1 Million each Occurrence/2 Million Aggregate with the Umbrella Liability Limits of 10 Million Each Occurrence/10 Million Aggregate.

The Auto Liability policies have no aggregate. Automobile physical damage is on a scheduled basis with the limit chosen by the City per the schedule on file.

Fidelity Blanket Coverage is included for Dishonest Acts with Faithful Performance included for Police and Public Officials, E&O, Stop Gap, Employers Liability and Employee Benefits Liability.

City of Montesano Fire – VFIS Overview

The City of Montesano Fire Department is provided coverage with a separate policy further increasing liability limits and protection through VFIS. The package of specialty coverage insures property on a Guaranteed Replacement Cost, replacement cost, actual cash value or functional replacement cost basis.

The General Liability Coverage for Products and Completed Operations with limits of 1 Million Each Occurrence/\$3 Million Aggregate, with an Umbrella Policy that increases the limit of insurance coverage \$4 Million Ea Occ/Agg. Professional Liability (E&O) is included in this with “first dollar defense” and defense costs are paid outside of the liability limits and are unlimited for coverage within the policy.

VFIS provides PRIMARY Auto Liability for members of the District responding to an emergency using their own personal auto, Physical Damage Coverage per Schedule on file for city owned vehicles. Also in the package; Employment Practices Liability, Management Liability, Medical Malpractice, Employers Liability (Stop Gap), Employee Benefits including Cyber Extortion expenses and Crime. Also included in coverage is Blanket Fidelity Bond (Employee Dishonesty) and Faithful Performance, Alteration, and Embezzlement.

The City has taken advantage of the financing convenience and no fee charge for installment payment with both, Travelers and VFIS.

The City of Montesano self-insures for unemployment compensation. Each payroll, funds are transferred to the Unemployment Compensation reserve fund to cover claims. As of December 31, 2021 the fund balance as was \$108,395. In 2021 the City of Montesano paid out claims totaling \$2,528,84.

Note 12 – Other Disclosures

Pending/closed litigation:

CITY OF MONTESANO
Notes to the Financial Statements
For the year ended December 31, 2021

1. *Amanda West et al. v. City of Montesano et al.*

This is a lawsuit that was filed in the United States District Court, Western District of Washington stemming from a use of force incident involving a Regional Crisis Response Unit made up of multiple jurisdictions. Plaintiff also named Montesano Police Chief Brett Vance personally.

The case was brought by the estate of Mr. Patrick West. Mr. West was shot and killed by a Hoquiam Police Officer during a Crisis Response Unit event. Plaintiff alleges a multitude of claims including but not limited to civil rights claims and an ADA claim. The case is complicated due to the involvement of multiple of governmental agencies and the punitive damages claims against Chief Vance. The close of this case was on 1/10/2022. The claimant received \$600,000 from the City of Montesano. There were 5 government agencies involved and each one paid out \$600,000.

2. *Marisa Salzer v. City of Montesano.*

This is a lawsuit that was filed in United States District Court, Western District of Washington by an individual alleging violations of the ADA. The plaintiff is deaf and alleges the city violated the ADA by failing to reasonably accommodate her during city council meetings. Damages, if any in this case would be minimal. However, if a violation is found, then the city could be responsible for plaintiff's attorney fees. In this juncture it appears to be brought for the purpose of getting an award of attorney fees. This claim was settled on 2/19/2021. The claimant received \$112,500 for the claim.

3. *Claims alleged by Railroad.*

The city has been in discussion with Puget Sound and Pacific Railroad regarding a lease dispute. The lease at issue was executed in 1977, and the events since its execution are not entirely clear. This matter could lead to litigation but it is unclear at this time. If the dispute was to proceed to litigation, and the city was unsuccessful, damages could be in the range of \$50,000. If I receive additional information or if circumstances change, I will update this letter accordingly.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

Note 1 - Summary of Significant Accounting Policies

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

The City of Montesano 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 (see *Notes to 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 presented using classifications that are similar to the ending balance classification 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Custodial 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 of Montesano also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 4 - *Deposits and Investments*.

D. Capital Assets

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

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. 24-hour Firefighters may accumulate up to 288 hours of vacation leave that is payable upon separation or retirement. Sick leave may be accumulated up to 1040 hours. Upon retirement or separation employees receive payment for unused sick leave at a variable reduced rate based on years of service. Payments are recognized as expenditures when paid.

The total liability for compensated absences as of December 31, 2020 was \$162,465.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

F. Long-Term Debt

See Note 6 – *Long-Term Debt*

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the town intends to use the most restricted resources first.

Fund Name	Portion of Ending Balance Restricted	Portion of Ending Balance Committed	Combined	Reason for Restriction or Commitment
Unemployment Compensation		105,266	105,266	For unemployment self-insurance
Long-term Care		29,467	29,467	For LEOFF1 retiree benefits
Agency Funds/Non-revenue	1,229		1,229	Funds held that will be passed along to other entities
<i>Totals</i>	1,229	134,733	135,961	

Restrictions and commitments of Ending Cash and Investments consist of unemployment self-insurance, LEOFF1 retiree benefits and fiduciary funds totaling \$135,961.

Note 2 - Budget Compliance

The City of Montesano adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund	\$ 3,512,754	\$ 3,306,775	\$ 205,978
101 - Ambulance Fund	\$ 1,675,456	\$ 1,659,480	\$ 15,976
103 - Hotel/motel Tax (ord. #1278)	\$ 29,500	\$ 5,436	\$ 24,064
106 - Re Excise Restricted Revenue	\$ 70,000	\$ 62,748	\$ 7,252
309 - East Pioneer			
310 - Street Capital Projects	\$ 945,800	\$ 786,275	\$ 159,525
312 - WWTP Riverbank Revetment Project	\$ 1,100,000	\$ 965,781	\$ 134,219
401 - Current Water			
Current Water	\$ 2,531,360	\$ 2,478,843	\$ 52,517
Forest -Water ShedReserve	\$ 678,688	\$ 675,393	\$ 3,295
Revenue Debt Reserve Fund	\$ 230,000	\$ 132,307	\$ 97,693
Total 401 - Current Water	\$ 3,440,048	\$ 3,286,543	\$ 153,505
402 - Storm Water Fund	\$ 121,100	\$ 105,870	\$ 15,230
408 - Cemetery Fund	\$ 42,218	\$ 30,871	\$ 11,346
502 - Unemployment Compensation		\$ 3,164	\$ (3,164)
503 - Long Term Care	\$ 33,990	\$ 24,279	\$ 9,711
630 - Agency Funds/non Revenue		\$ 41,483	\$ (41,483)
Total appropriation and expenditures excluded due to consolidation was \$527,800.			

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

Fund 502 expenditures were not appropriated. These were unemployment claims.

Fund 630 expenditures were not appropriated. These are pass-through custodial funds.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The City of Montesano continues to monitor the impact of the pandemic on its operations and finances. The length of time these measures will continue to be in place, and the full extent of the financial impact on the City of Montesano is unknown at this time.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

Note 4 – Deposits and Investments

Investments are reported at fair value. Deposits and investments by type at December 31, 2020 are as follows:

Type of Deposit or Investment	(City/Town/District)'s own deposits & investments	Deposits & investments held by the (City,Town/District) as custodian for other local governments, individuals, or private organizations.	Combined
Deposits	2,586,053	1,229	2,587,281
LGIP	344,145		344,145
Money market	262,190		262,190
<i>Totals</i>	3,192,387	1,229	3,193,616

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

Investments in the State Local Government Investment Pool (LGIP)

The City of Montesano is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the town would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City of Montesano's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the town or its agent in the government's name.

The following table displays interfund loan activity during 2020:

Borrowing Fund	Lending Fund	Beginning Balance	New Loans	Payments	Ending Balance
101	405	\$ -	\$ 100,000	\$ -	\$ 100,000

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

Note 6 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City of Montesano and summarizes the city's debt transactions for year ended December 31, 2020.

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

Year	Principal	Interest	Total Debt Service
2021	460,067	110,330	570,397
2022	470,322	97,626	567,948
2023	458,794	85,064	543,859
2024	466,755	72,554	539,309
2025	405,160	49,944	455,104
2026-30	1,445,124	104,052	1,549,176
2031-35	240,000	12,816	252,816
<i>Totals</i>	<i>3,946,221</i>	<i>532,387</i>	<i>4,478,608</i>

Note 7 – OPEB Plans

Northwest Firefighters Trust & AWC The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the city as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2020, the plan had 2 members, both retirees. As of December 31, 2020, the city's total OPEB liability was \$1,156,197 as calculated using the alternative measurement method. For the year ended December 31, 2020, the city paid \$24,279 in benefits.

Note 8 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City of Montesano'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 2/3 and LEOFF 2.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

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 of Montesano 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, 2020 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

Plan Type	Employer Contributions	Allocation Percentage	NPL	NPA
			\$	\$
PERS 1			-	-
	\$		\$	\$
PERS 1 UAAL	62,009.00	0.00855602%	302,074.00	-
	\$		\$	\$
PERS 2/3	102,020.00	0.01107400%	141,630.00	-
			\$	\$
LEOFF 1		0.00321400%	-	(60,697.00)
	\$		\$	\$
LEOFF 2	69,223.00	0.03538700%	-	(721,843.00)
	\$		\$	\$
VFFRPF	25,230.00	0.45000000%	-	(157,832.00)
			\$	\$
			443,704.00	(940,372.00)

LEOFF Plan 1

The City of Montesano 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.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

LEOFF Plan 2

The City of Montesano 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.

B. Defined Contribution Pension Plans

The City of Montesano matches up to \$25 per month into a deferred compensation plan for members of the non-uniform Teamsters bargaining unit. The total amount contributed in 2020 was \$4,725.04.

Note 9- 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 of Montesano. 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 2020 was \$2.7830437 per \$1,000 on an assessed valuation of \$343,034,245 for a total regular levy of \$954,679.

Note 10 – Risk Management

Nicholson & Associates Insurance, LLC, is the contracted independent agency and brokerage firm for the City of Montesano. The all lines licensed agent, Karen Nicholson Miltenberger, is the agent on record. Her focus in the firm is risk manager for municipal business and emergency services. She has held the designation of Certified Insurance Counselor for 25 years. She is seasoned in insurance application and placement, risk management prevention training, and is well known in the insurance industry having more than thirty years experience.

The City of Montesano's insurance coverage is provided by Travelers Companies, Public Sector Services (NYSE:TRV), a leading provider of insurance and surety products, additionally offering risk management services to a variety of businesses including municipalities, organizations and individuals. Travelers A.M. Best financial strength rating which reflects Travelers claims paying ability is A+ (A=the 2nd highest of 16).

Nicholson's firm utilizes risk management programs such as Employment Liability Training, Sensitivity in the Work Place, attorney lead seminars in Work Place Harassment Prevention, Employment Practices Training and the required training for Elected Officials for WA State. Additionally the accredited and WA State required Emergency Service "EVIP Training" is made available as needed to keep in compliance with recertification for train the trainer, and Work Place Harassment Prevention presentations. In-house and contracted services are available with a variety of vendors for risk management consultation and employment practices training. Human resource assistance is available online via web access.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

Travelers Companies have many loss control field services, claims and litigation administration, and coordinate with our own legal counsel.

The Fire Department of Montesano is insured by Continental Western Insurance Group (Berkley Group) through a specialty product “Fire EMS Pak” on a separate policy helping to keep the liability limits from becoming diluted. Continental Western Insurance Group’s A.M. Best rating is A+. The program was chosen because of its unique and hard to find coverage that has competitive premiums. They also have a 3-Year Rate Guarantee that we have enjoyed.

Having two separate insurance programs provides higher liability limits than previous insurance was provided by self-insured “Pools”. Traveler’s property and casualty insurance coverage is written on an occurrence basis, with some endorsements written on Claims Made Form, each with separate variety and applicable deductibles, per schedule on file. Fire EMS Pak policy and endorsements are issued on an all occurrence form.

City of Montesano - Travelers Policy Overview
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Deluxe Property Coverage includes Real and Business Personal Property, Inland Marine, (Contractors, Mobile Equipment, scheduled items such as traffic control signals and street lights), Computers, Mechanical Breakdown (Boiler & Machinery) and Crime with additional coverage and extensions for a premier public sector service insurance program. Cyber Liability is included along with Flood and Earthquake per schedule on file. Replacement Cost coverage is included on scheduled buildings on file. Business Income and Extra Expense are also included.

In the General Liability Section, coverage is provided for Products and Completed Operations; Aggregate at 2 Million (Plus 10 Million Umbrella Liability), Personal and Advertising Injury Liability at 1 Million each Occurrence limit 1 Million. Included is Professional (E&O), Employment Related Practices, Cemetery

Professional Services Liability (E&O) with General Liability at 1 Million each Occurrence/2 Million Aggregate with the Umbrella Liability Limits of 10 Million Each Occurrence/10 Million Aggregate.

The Auto Liability policies have no aggregate. Automobile physical damage is on a scheduled basis with the limit chosen by the City per the schedule on file.

Fidelity Blanket Coverage is included for Dishonest Acts with Faithful Performance included for Police and Public Officials, E&O, Stop Gap, Employers Liability and Employee Benefits Liability.

City of Montesano Fire – CWG Policy Overview

The City of Montesano Fire Department is provided coverage with a separate policy further increasing liability limits and protection through Fire EMS Pak (CWG Berkley Group). The package of specialty coverage provides Guaranteed Replacement Cost on scheduled buildings, business personal property, Blanket Portable Equipment (Inland Marine), Auto Liability (no aggregate) and Designated Values Coverage for emergency apparatus by schedule on file.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

The General Liability Coverage for Products and Completed Operations with limits of 1 Million Each Occurrence/10 Million Aggregate, with an Umbrella Policy that increases the limit of insurance coverage \$9 Million Ea Occ/Agg. Professional Liability (E&O) is included in this with “first dollar defense” and defense costs are paid outside of the liability limits and are unlimited for coverage within the policy.

Fire EMS Pak provides PRIMARY Auto Liability for members of the District responding to an emergency using their own personal auto, Physical Damage Coverage per Schedule on file for city owned vehicles. Also in the package; Employment Practices Liability, Management Liability, Medical Malpractice, Employers Liability (Stop Gap), Employee Benefits and Crime. Also included in coverage is Blanket Fidelity Bond (Employee Dishonesty) and Faithful Performance, Alteration, and Embezzlement.

The City has taken advantage of the financing convenience and no fee charge for installment payment with both, Travelers and CWG.

The City of Montesano self-insures for unemployment compensation. Each payroll, funds are transferred to the Unemployment Compensation reserve fund to cover claims. As of December 31, 2020 the fund balance as was \$105,266. In 2020 the City of Montesano paid out 10 claims totaling \$4,549.97 and recovered \$916.07.

Note 11 – Other Disclosures

Pending litigation:

1. *Amanda West et al. v. City of Montesano et al.*

This is a lawsuit that was filed in the United States District Court, Western District of Washington stemming from a use of force incident involving a Regional Crisis Response Unit made up of multiple jurisdictions. Plaintiff also named Montesano Police Chief Brett Vance personally.

The case was brought by the estate of Mr. Patrick West. Mr. West was shot and killed by a Hoquiam Police Officer during a Crisis Response Unit event. Plaintiff alleges a multitude of claims including but not limited to civil rights claims and an ADA claim. The case is complicated due to the involvement of multiple of governmental agencies and the punitive damages claims against Chief Vance. Damages in this case could be large, with the city’s portion well above \$50,000. If I receive additional information or if circumstances change, I will update this letter accordingly.

2. *Marisa Salzer v. City of Montesano.*

This is a lawsuit that was filed in United States District Court, Western District of Washington by an individual alleging violations of the ADA. The plaintiff is deaf and alleges the city violated the ADA by failing to reasonably accommodate her during city council meetings. Damages, if any in this case would be minimal. However, if a violation is found, then the city could be responsible for plaintiff’s attorney fees.

City of Montesano
Notes to the Financial Statements
For the year ended December 31, 2020

I this juncture it appears to be brought for the purpose of getting an award of attorney fees. It is expected an offer of judgment will be made in due course which would not exceed \$50,000. If I receive additional information or if circumstances change, I will update this letter accordingly.

3. *Claims alleged by Railroad.*

The city has been in discussion with Puget Sound and Pacific Railroad regarding a lease dispute. The lease at issue was executed in 1977, and the events since its execution are not entirely clear. This matter could lead to litigation but it is unclear at this time. If the dispute was to proceed to litigation, and the city was unsuccessful, damages could be in the range of \$50,000. If I receive additional information or if circumstances change, I will update this letter accordingly.

City of Montesano
Schedule of Liabilities
For the Year Ended December 31, 2022

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Forest Purchase Loan	11/1/2033	960,000	-	80,000	880,000
263.56	Umpqua Capial Lease - Long Term	6/1/2028	618,465	-	85,330	533,135
263.56	Umpqua Capial Lease - Short Term	6/1/2022	19,181	-	19,181	-
263.51	Umpqua Loan - Ambulance Box	12/1/2028	179,548	-	22,716	156,832
Total General Obligation Debt/Liabilities:			1,777,194	-	207,227	1,569,967
Revenue and Other (non G.O.) Debt/Liabilities						
263.86	Storage Tank	10/1/2029	1,299,387	-	162,423	1,136,964
259.12	Compensated Absences		348,915	-	15,251	333,664
263.82	USDA Treatment Plan	3/4/2028	237,033	-	88,801	148,232
263.88	WWTP River Bank Protection	7/1/2027	157,894	-	26,316	131,578
264.30	Net Pension Liability		105,783	125,459	-	231,242
264.40	OPEB Liability		1,139,627	-	223,406	916,221
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,288,639	125,459	516,197	2,897,901
Total Liabilities:			5,065,833	125,459	723,424	4,467,868

City of Montesano
Schedule of Liabilities
For the Year Ended December 31, 2021

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Forest Purchase Loan	11/1/2033	1,040,000	-	80,000	960,000
263.51	Umpqua Capital Lease- Long Term	6/1/2028	701,324	-	82,859	618,465
263.51	Umpqua Capital Lease- Short Term	6/1/2022	56,457	-	37,276	19,181
263.51	Umpqua Loan- Ambulance Box	12/1/2028	180,347	-	799	179,548
Total General Obligation Debt/Liabilities:			1,978,128	-	200,934	1,777,194
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	USDA Treatment Plant	3/4/2028	322,072	1	85,040	237,033
263.88	WWTP River Bank Protection	7/1/2027	184,210	-	26,316	157,894
263.86	Storage Tank	10/1/2029	1,461,810	-	162,423	1,299,387
259.12	Compensated Absences		162,465	186,450	-	348,915
264.30	Net Pension Liability		443,704	-	337,921	105,783
264.40	OPEB Liability		1,156,197		16,570	1,139,627
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,730,458	186,451	628,270	3,288,639
Total Liabilities:			5,708,586	186,451	829,204	5,065,833

City of Montesano
Schedule of Liabilities
For the Year Ended December 31, 2020

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Forest Purchase Loan	11/1/2033	1,120,000	-	80,000	1,040,000
263.51	Umpqua Capital Lease- Long Term	6/1/2028	781,792	1,447	81,915	701,324
263.51	Umpqua Capital Lease- Short Term	6/1/2022	92,329	(1)	35,871	56,457
263.51	Umpqua Loan- Ambulance Box	12/1/2028	181,069	61	783	180,347
Total General Obligation Debt/Liabilities:			2,175,190	1,507	198,569	1,978,128
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	USDA Treatment Plant	3/4/2028	403,509	1	81,438	322,072
263.88	WWTP River Bank Protection	7/1/2027	210,526	-	26,316	184,210
263.84	Storage Tank	10/1/2029	1,619,456	4,777	162,423	1,461,810
259.12	Compensated Absences		385,836	-	223,371	162,465
264.30	Net Pension Liability		450,972	-	7,268	443,704
264.40	OPEB Liability		966,266	189,931	-	1,156,197
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,036,565	194,709	500,816	3,730,458
Total Liabilities:			6,211,755	196,216	699,385	5,708,586

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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