Schedule of Audit Findings and Responses

City of Gold Bar
Snohomish County
January 1, 2011 through December 31, 2011

1. The City's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.

Description of Condition

During the prior audit, we communicated financial condition concerns to the City. Although the City has taken steps to reduce expenses, including a reduced budget for streets, parks and storm water maintenance, its financial condition continues to decline. The City's total Governmental Funds ending cash balance since 2007 was:

Fiscal Year	General Fund Ending Balance
2007	$ 535,812
2008	$ 509,063
2009	$ 351,028
2010	$ 59,955
2011	$ 60,113

As of September 19, 2012, the City's General Fund ending cash balance was $3,684, which would cover approximately 2.5 days of General Fund operating expenditures.

General Fund expenditures exceeded revenues in two of the prior three years:

	2009	2010	2011
Revenues	$614,555.99	$619,143.73	$614,144.64
Expenditures	$772,590.94	$910,222.63	$613,987.01
Excess/(Deficit)	$(158,034.95)	$(291,078.90)	$157.63

Although our audit found that the City's General Fund ending cash balance rose by $158 and the Fund's revenues exceeded expenditures by $157.63, the City's overall cash position continues to decline. Total cash and investments for all governmental funds decreased from $402,174, $194,114 and $179,916 in 2009, 2010 and 2011, respectfully.

If available cash resources in the governmental funds continue to decrease, the City is at increased risk of needing to rely on inter-fund loans to continue operations. As of December 31, 2011, the City reported $14,000 in inter-fund loans outstanding and payable to the Water Fund.

Cause of Condition

The City states it has incurred large costs associated with public records requests and pending public records litigation. Specific information on these costs is not available from its accounting system.

Effect of Condition

The City cannot be sure it can provide services at current levels or meet operating expenses. The City is also at risk for permanent diversions of funds and one fund benefitting another if interfund loans are used and not able to be repaid.

In addition, the City is asking voters in November 2012 to approve a property tax levy to cover operating costs. If the tax levy is not approved, the City is at risk of not being able to pay future obligations or maintain current service levels.

Recommendation

We continue to recommend the City:

- Establish a formal financial plan to address cash flow issues and monitor and evaluate actual results compared to the plan to ensure its financial condition improves.

- Closely monitor and evaluate the financial activities to ensure the plan is being followed and the desired results achieved. It should revise the plan if expected improvements are not achieved.

- Ensure timely and accurate financial information is provided to the Council in order to facilitate informed decision making.

- Take prompt action to manage operations within available resources.

City's Response

The City is aware of the issues raised and the potential impacts of those issues. The City has taken steps to meet the recommendations made as can be seen in the difference between the 2011 General Fund results and those of the previous two years.

Auditor's Remarks

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

Applicable Laws and Regulations

RCW 43.09.210 -- Local government accounting -- Separate accounts for each fund or activity -- Exemption for agency surplus personal property, states in part:

> Separate accounts shall be kept for every appropriation or fund of a taxing or legislative body showing date and manner of each payment made therefrom, the name, address, and vocation of each person, organization, corporation, or association to whom paid, and for what purpose paid.

> Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body.
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> All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another . . . .

Budgeting, Accounting and Reporting Systems (BARS) Manual, Part 3, Chapter 4. - Section A. Interfund Loans (emphasis in original), states:

> This section does not attempt to determine which money of a municipality may or may not be available for interfund lending, since the special character of some money involves commitments and restrictions which would require individual consideration. As a rule of thumb, however, it may be considered permissible to make interfund loans of those municipal money which are clearly inactive or in excess of anticipated cash needs throughout the duration of the loan **and** legally available for investment.
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> The minimum acceptable procedures for making and accounting for interfund loans are as follows:
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> 1. The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, including the lending fund, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund.
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> 2. Interest should be charged in all cases, unless:
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>   a. The borrowing fund has no other source of revenue other than the lending fund; or
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>   b. The borrowing fund is normally funded by the lending fund.
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> 3. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.
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> 4. The term of the loan may continue over a period of more than one year, but must be "temporary" in the sense that no <u>permanent diversion</u> of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years

will be scrutinized for a “permanent diversion” of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)

5. Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by such transaction.