

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Tonasket
Okanogan County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012250

Issue Date
July 21, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 21, 2014

Mayor and City Council
City of Tonasket
Tonasket, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Tonasket's financial statements and compliance with federal laws and regulations

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Okanogan County
January 1, 2013 through December 31, 2013**

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Federal Summary

City of Tonasket Okanogan County January 1, 2013 through December 31, 2013

The results of our audit of the City of Tonasket are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.760	Water and Wastewater Program Cluster - Water and Waste Disposal Systems for Rural Communities

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

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

**City of Tonasket
Okanogan County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Tonasket
Tonasket, 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 Tonasket, Okanogan County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated June 25, 2014.

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 or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

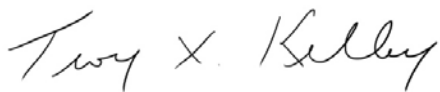
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

June 25, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Tonasket
Okanogan County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Tonasket
Tonasket, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Tonasket, Okanogan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "T" and "K".

TROY KELLEY
STATE AUDITOR

June 25, 2014

Independent Auditor's Report on Financial Statements

City of Tonasket Okanogan County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Tonasket
Tonasket, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Tonasket, Okanogan County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Tonasket, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Tonasket, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

June 25, 2014

Financial Section

**City of Tonasket
Okanogan County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current Expense Fund	101 City Street Fund	106 Gerhard Operating Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	130,874	0	0	0
30880	Beg Fund Bal-Unreserved	937,274	148,822	-2,137	8,187
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	578,245	514,415	52,464	0
320	Licenses & Permits	8,173	8,173	0	0
330	Intergovernmental Revenues	407,468	44,702	362,766	0
340	Charges for Goods and Services	661,980	12,623	0	0
350	Fines & Penalties	19,828	8,120	0	0
360	Miscellaneous Revenues	48,854	19,625	26,461	15
Total Operating Revenues:		1,724,549	607,659	441,691	15
Operating Expenditures					
510	General Government	91,521	91,521	0	0
520	Public Safety	470,419	470,419	0	0
530	Utilities	501,111	12,610	0	0
540	Transportation	68,771	4,784	63,986	0
550	Natural and Economic Environment	30,541	7,963	0	0
560	Social Services	1,708	1,708	0	0
570	Culture And Recreation	27,449	27,431	0	18
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		1,191,521	616,437	63,986	18
Net Operating Increase (Decrease):		533,028	-8,777	377,705	-3
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	7,090	6,990	0	0
391-393	Debt Proceeds	2,585,534	0	0	0
397	Transfers-In	75,500	50,000	0	0
Total Nonoperating Revenues:		2,668,124	56,990		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	7,129	7,129	0	0
591-593	Debt Service	204,257	0	0	0
594-595	Capital Expenditures	2,978,043	12,889	367,642	0
597	Transfers-Out	75,992	992	0	0
Total Nonoperating Expenditures:		3,265,421	21,010	367,642	
Increase (Decrease) in Cash and Investments		-64,269	27,202	10,063	-3
Ending Cash and Investments					
50810	End Fund Bal-Reserved	176,302	63,835	0	0
50880	End Fund Balance-Unreserved	827,577	112,189	7,927	8,184

The accompanying notes are an integral part of this Statement.

BARS Code		108 Stadium Tax Fund	301 City Hall/City Park Fund	304 Cumulative Building Fund	305 CIP (Capital Improvement) Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	13,630	8,135	6,739	35,575
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	7,728	0	0	3,637
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	10	1,010	10	46
Total Operating Revenues:		7,739	1,010	10	3,683
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	9,743	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		9,743			
Net Operating Increase (Decrease):		-2,005	1,010	10	3,683
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	275	0	0	0
597	Transfers-Out	0	0	0	25,000
Total Nonoperating Expenditures:		275			25,000
Increase (Decrease) in Cash and Investments		-2,280	1,010	10	-21,317
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	11,351	9,145	6,749	14,259

The accompanying notes are an integral part of this Statement.

BARS Code		311 Swim Pool Reserve Fund	401 Water Fund	420 Sewer Fund	700 Gerhard Trust Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	46,351	84,523	0
30880	Beg Fund Bal-Unreserved	7,970	166,523	540,330	3,500
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	336,235	313,122	0
350	Fines & Penalties	0	6,006	5,702	0
360	Miscellaneous Revenues	462	250	964	0
Total Operating Revenues:		462	342,491	319,788	
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	244,110	244,391	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	6,418	6,418	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:			250,528	250,809	
Net Operating Increase (Decrease):		462	91,963	68,979	0
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	100	0
391-393	Debt Proceeds	0	1,637,014	948,520	0
397	Transfers-In	25,000	0	500	0
Total Nonoperating Revenues:		25,000	1,637,014	949,120	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	100,699	103,558	0
594-595	Capital Expenditures	17,980	1,628,313	950,944	0
597	Transfers-Out	0	0	50,000	0
Total Nonoperating Expenditures:		17,980	1,729,012	1,104,502	
Increase (Decrease) in Cash and Investments		7,482	-35	-86,403	0
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	26,285	82,682	3,500
50880	End Fund Balance-Unreserved	15,452	186,553	455,768	0

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	601 Municipal Court Fund
308	Beginning Cash and Investments	0	0
388 and 588	Prior Period Adjustments, net	0	0
310-360	Revenues	0	0
380-390	Other Increases and Financing Sources	15,422	15,422
510-570	Expenditures	0	0
580-590	Other Decreases and Financing Uses	14,474	14,474
Increase (Decrease) in Cash and Investments		948	948
508	Ending Cash and Investments	949	949

The accompanying notes are an integral part of this Statement.

**CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tonasket reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Tonasket was incorporated on December 6, 1927 and operates under the laws of the State of Washington applicable to a non-charter code city. The City is a general purpose government and provides public safety, fire protection, street maintenance, parks, health services and general administration and owns and operates a water system and sewer system. The City uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. **Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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.

CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

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

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Current Expense	647,661.72	612,494.85	35,166.87
City Street	525,905.19	437,512.23	88,392.96
Cemetery Operating	24,770.00	12,310.04	12,459.96
Cemetery Trust	73,559.68	10,000.00	63,559.68
Cemetery Improvement	4,907.00	400.00	4,507.00
Gerhard Operating	8,121.03	18.07	8,102.96
Stadium Tax	18,515.00	10,017.58	8,497.42
Pool Reserve Fund	32,970.00	17,980.00	14,990.00
City Hall/City Park Reserve	8,146.03	0	8,146.03
Cumulative Police	41,646.58	11,250.52	30,396.06
Cumulative Building	6,750.03	0	6,750.00
Capital Improvement	36,880.00	25,000.00	11,880.00
City Street Reserve	1,038.84	0	1,038.84
Water Reserve	65,543.95	0	65,543.95
Sewer Reserve	350,520.00	50,000.00	300,520.00
Water Fund	369,980.00	324,460.44	45,519.56
Sewer Fund	519,250.00	357,944.78	161,305.22
Water Bond Redemption	84,154.54	83,666.78	487.76
Water Bond Reserve	33,637.66	0	33,637.66
Sewer Bond Redemption	114,866.42	103,557.52	11,308.90
Sewer Bond Reserve	67,624.65	0	67,624.65
Water Project	1,987,164.74	1,636,901.41	350,263.33
Sewer Project	1,373,420.52	947,318.62	426,101.90
Total	\$6,397,033.58	\$4,640,832.84	\$1,756,200.74

CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

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 City's legislative body.

d. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds except the interest earned in the surplus fund is deposited in the Current Expense Fund.

e. Deposits

The City deposits and certificates of deposit are covered by (the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission).

f. Investments See NOTE 3.

g. Capital Assets

Capital assets are long-lived assets of the City and are recorded as expenditures when purchased.

h. Compensated Absences

Employees are allowed to accumulate vacation hours to a maximum of 240 hours in a calendar year plus the monthly accruals. Only 240 hours may be carried over to a new calendar year. Employees who retire, resign or are laid off due to a reduction in force shall be paid all accrued and unused vacation time as part of their final paycheck.

Sick leave with pay shall accrue at the rate of one working day of leave for each month of continuous full time service. Any such leave accrued which is unused in any year shall be accumulated for succeeding years for all regular full time employees up to a maximum of 120 days. Employees who retire or leave employment from the City of Tonasket after working for at least 15 years and are not fired shall be paid ¼ of the unused sick leave accumulated at the time of separation.

i. Long-Term Debt See NOTE 6

j. Other Financing Sources or Uses

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

k. Risk Management

The City of Tonasket is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2013, there are 236 members in the program.

CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per – occurrence self insured retention of \$100,000. The standard member deductible is \$1000 for each claim, (deductible may vary per member) while the program is responsible for the \$100,000 self insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,247,000 to cap the total claims paid by the program in any one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500 (\$10,000 for Pumps and Motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2013 were \$1,423,059.12.

1. Reserve Fund Balances

The City has the following funds with reserve balances:

Fund 001 Current Expense Fund – The reserve balance in the Current Expense Fund is from the Cemetery Trust Fund. These funds are used strictly for Cemetery expenses.

Fund 700 Gerhard Trust Fund---The Gerhard Trust Fund reserve balance is a principal held in reserve and the interest accrued is receipted into the Gerhard Operating

Fund 401 Water Fund---The reserve balance in Water Fund is actually from Fund 411 Water Bond Redemption and Fund 412 Water Bond Reserve which are used for the redemption of debt.

Fund 420 Sewer Fund—The reserve balance in Sewer Fund is actually from Fund 422 Sewer Bond Redemption and Fund 423 Sewer Bond Reserve which are used for the redemption of debt.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Tonasket.

CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

NOTE 3 - INVESTMENTS

The City's investments are either insured, registered or held by the City or its agent in the City's name. Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	① City's own investments	② Investments held by City as an agent for other local governments, individuals or private organizations.	③ Total
L.G.I.P.	\$ 632,792.39	\$ 0	\$ 632,792.39
U.S. Bank, Surplus Funds	4,563.24	0	4,563.24*
Pro Equities	<u>100,768.55</u>	<u>0</u>	<u>100,768.55</u>
Total	\$ <u>738,124.18</u>	\$ <u>0</u>	\$ <u>738,124.18</u>

* This is the actual amount at the end of 2013 on the US Bank Statement

NOTE 4 - PROPERTY TAX

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

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

The City's regular levy for the year 2013 was \$2.658925 per \$1,000 on an assessed valuation of \$44,528,897.00 for a total regular levy of \$ 118,399.00.

NOTE 5 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2013:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2013</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/13</u>
#1 101 City Street	421 Sewer Reserve	\$10,180.00	\$ 0	\$ 0	\$10,180.00
#2 101 City Street	421 Sewer Reserve	\$ 5,365.09	\$ 0	\$ 0	\$ 5,365.09
#2 103 Cemetery	421 Sewer Reserve	\$ 2,393.49	\$ 0	\$ 100.00	\$ 2,293.49
#2 001 Current Exp.	420 Sewer Fund	793.49	\$ 0	\$ 500.00	\$ 293.49
#3 001 Current Exp.	421 Sewer Reserve	-0-	50,000.00	-0-	50,000.00
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
	TOTALS	\$ <u>18,732.07</u>	\$ <u>50,000.00</u>	\$ <u>600.00</u>	\$ <u>68,132.07</u>

The interest rate on the #1 interfund loan is .27 and is not included in the repayment amount. Repayment began in 2011.

There is not any interest rate included in the #2 interfund loan. Repayment began in 2005.

The interest rate on #3 is the LGIP rate at the time of payment.

CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

NOTE 6 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Tonasket and summarizes the City's debt transactions for 2013. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2013		187,224.30		187,224.30
2014		134,115.74		134,115.74
2015		227,267.86		227,267.86
2016		227,267.86		227,267.86
2017		227,267.86		227,267.86
2018		227,267.86		227,267.86
2019-2023		1,057,634.25		1,057,634.25
2024-2028		861,498.51		861,498.51
2029-2033		743,811.45		743,811.45
2034-2038		457,150.00		457,150.00
2039-2043		457,150.00		457,150.00
2044-2048		457,150.00		457,150.00
2049-2053		457,150.00		457,150.00
2054		91,430.00		91,430.00
TOTALS		\$5,813,385.72		\$5,813,385.72

The above figures include the new Rural Development loan for water fund in the amount of \$2,113,000.00 and a \$50,000 DOE Loan.

NOTE 7 - PENSION PLANS

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

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

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

NOTE 8 - OTHER DISCLOSURES

The City is responsible for one LEOFF I employee's health insurance and other applicable costs for the LEOFF I retirement system.

On Schedule 09, the Public Works Trust Fund payment is listed under Water Redemption. Approximately 8% of the ending balance will be paid out of Sewer Redemption Fund. The Public Works Trust Fund Debt was paid off in 2013.

**CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**

The Software purchase and the copier lease are both paid from Current Expense, Water and Sewer Funds.

The transfer from City Street Fund to the Reserve Fund was not made due to a low fund balance.

The transfer from City Streets and Cemetery for the back hoe payment was also not made due to low fund balances.

It is planned the above transfers will be able to be made in 2014.

Adjustments were made to the Schedule 09 compensated balance and tax liability beginning balances. An error was found when working on the 2013 Schedule 09. The adjustments are reflected in the beginning balances of the Schedule 09.

City of Tonasket

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	259.11	Compensated Balances		29,209	15,488	25,167	19,530
	259.11	Tax Liability		2,235	1,184	1,925	1,494
	263.98	Copier Lease		5,635	-	2,049	3,586
Total General Obligations:				37,079	16,672	29,141	24,610
Revenue Obligations							
	252.11	Water Revenue Bonds CVB	4/5/2025	312,638	-	18,770	293,868
	252.11	Water/Sewer PWTF	7/1/2014	52,849	-	52,849	-
	252.11	Sewer DOE	6/30/2021	250,362	-	27,831	222,531
	252.11	USDA Sewer	10/1/2032	873,695	-	28,151	845,543
	252.11	Sewer DOE new	7/31/2033	50,000	-	-	50,000
	252.11	CVB Interim financing	12/31/2015	374,210	1,637,014	-	2,011,224
	259.12	compensated absences		33,781	14,226	16,210	31,797
	259.12	Tax Liability		2,584	1,088	1,240	2,432
	263.99	Capital Purchase Software		11,201	11,932	12,147	10,986
Total Revenue Obligations:				1,961,320	1,664,259	157,198	3,468,380
Total Liabilities:				1,998,398	1,680,931	186,339	3,492,990

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Rural Utilities, Dept of Ag.	Water/Waste Disposal	10.760			1,644,642	1,644,642	1,2,3
Federal Highway Administration (fhwa), Department Of Transportation/WSDOT	Highway Planning and Construction	20.205	STPE-0097	6,747		6,747	1,2
Office Of Water, Environmental Protection Agency/Dept. Of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	Pollution control	949,195		949,195	1,2,3
Department Of Homeland Security/Okanogan County	Homeland Security Grant Program	97.067	Stonegarden Grant	3,430		3,430	1,2
Total Federal Awards Expended:				959,372	1,644,642	2,604,014	

City of Tonasket

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2013

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses single entry cash basis accounting as prescribed by the Washington State Auditor's Office in their Budgeting, Accounting and Reporting System (BARS) Manual, which is a departure from generally accepted accounting principles (GAAP).

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of the program costs. Entire program costs, including the City's portion, are more than shown.

NOTE 3 – FEDERAL LOANS

The City of Tonasket was approved by the USDA Rural Utilities Service to receive a loan totaling \$2,350,000 to make water system improvements.

The City of Tonasket was approved to receive a forgivable loan in the amount of \$1,414,250 and a payable loan in the amount of \$50,000 from the Office of Water, Environmental Protection Agency through the Department of Ecology for the purpose of installing sewer lines to homes in the Bonaparte Creek/Mill Drive area.



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

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