

Washington State Auditor's Office
Financial Statements Audit Report

City of South Bend
Pacific County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012273

Issue Date
July 28, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 28, 2014

Mayor and City Council
City of South Bend
South Bend, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

Table of Contents

**City of South Bend
Pacific County
January 1, 2013 through December 31, 2013**

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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Financial Statements	3
Financial Section.....	6

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 South Bend
Pacific County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of South Bend
South Bend, 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 South Bend, Pacific 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 July 21, 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.

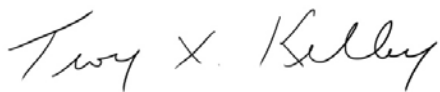
COMPLIANCE AND OTHER MATTERS

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

July 21, 2014

Independent Auditor's Report on Financial Statements

City of South Bend Pacific County January 1, 2013 through December 31, 2013

Mayor and City Council
City of South Bend
South Bend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of South Bend, Pacific 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 6.

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 South Bend 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 South Bend, 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 South Bend, 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 Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

July 21, 2014

Financial Section

**City of South Bend
Pacific 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

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current Expense	101 Street Fund	102 Arterial Streets
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	2,564,200	305,860	23,420	2,323
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	647,969	582,329	0	0
320	Licenses & Permits	59,061	59,061	0	0
330	Intergovernmental Revenues	1,097,778	71,301	33,593	525,353
340	Charges for Goods and Services	1,612,108	6,891	0	0
350	Fines & Penalties	101,312	101,312	0	0
360	Miscellaneous Revenues	217,231	19,707	37,233	105,001
Total Operating Revenues:		3,735,460	840,602	70,827	630,354
Operating Expenditures					
510	General Government	218,607	218,607	0	0
520	Public Safety	640,263	640,239	0	0
530	Utilities	1,242,267	0	0	0
540	Transportation	107,839	0	85,118	0
550	Natural and Economic Environment	16,200	15,676	0	0
560	Social Services	1,029	1,029	0	0
570	Culture And Recreation	31,675	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		2,257,881	875,551	85,118	
Net Operating Increase (Decrease):		1,477,578	-34,949	-14,291	630,354
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	126,151	52,848	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	29,408	0	7,700	0
Total Nonoperating Revenues:		155,558	52,848	7,700	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	357,972	52,833	0	0
591-593	Debt Service	531,403	0	0	0
594-595	Capital Expenditures	1,072,818	57,595	0	556,911
597	Transfers-Out	29,408	29,408	0	0
Total Nonoperating Expenditures:		1,991,601	139,836		556,911
Increase (Decrease) in Cash and Investments		-358,463	-121,938	-6,591	73,443
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	2,205,736	183,923	16,829	75,765

The accompanying notes are an integral part of this Statement.

BARS Code		103 Library	106 Docks	108 Drug Trust	110 Hotel/Motel Tax Fund Revenues
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	0	11,094	8,855	1,114
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	3,069	0	8,253
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	0	10,466	257	600
Total Operating Revenues:			13,534	257	8,853
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	24	0
530	Utilities	0	0	0	0
540	Transportation	0	22,721	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	3,919	0	0	27,756
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		3,919	22,721	24	27,756
Net Operating Increase (Decrease):		-3,919	-9,187	233	-18,903
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	356	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	3,919	0	0	17,789
Total Nonoperating Revenues:		3,919	356		17,789
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	4,060	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:				4,060	
Increase (Decrease) in Cash and Investments		0	-8,831	-3,827	-1,114
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	0	2,263	5,028	0

The accompanying notes are an integral part of this Statement.

BARS Code		401 Water Operating Fund	404 Sewer Operating Fund	405 Mosquito Control	411 Garbage
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	1,406,103	455,957	47,902	85,473
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	54,318	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	467,531	0	0
340	Charges for Goods and Services	760,785	626,262	0	218,170
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	12,857	24,000	0	629
Total Operating Revenues:		773,642	1,117,794	54,318	218,799
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	473,473	451,385	74,771	242,637
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	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:		473,473	451,385	74,771	242,637
Net Operating Increase (Decrease):		300,169	666,409	-20,453	-23,838
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	36,627	24,488	0	11,833
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		36,627	24,488		11,833
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	34,844	255,763	0	10,472
591-593	Debt Service	262,418	268,986	0	0
594-595	Capital Expenditures	26,993	425,480	3,000	2,839
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		324,255	950,228	3,000	13,311
Increase (Decrease) in Cash and Investments		12,541	-259,332	-23,453	-25,316
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	1,418,644	196,624	24,449	60,156

The accompanying notes are an integral part of this Statement.

BARS Code		701 HUD
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	216,100
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	6,480
Total Operating Revenues:		6,480
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities	0
540	Transportation	0
550	Natural and Economic Environment	525
560	Social Services	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		525
Net Operating Increase (Decrease):		5,955
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		
Increase (Decrease) in Cash and Investments		5,955
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	222,055

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 Investment Trust Funds - Utility Deposits	610 Robert Bush Park Fund
308	Beginning Cash and Investments	20,468	12,651	7,817
388 and 588	Prior Period Adjustments, net	0	0	0
310-360	Revenues	126	0	126
380-390	Other Increases and Financing Sources	4,650	4,650	0
510-570	Expenditures	739	0	739
580-590	Other Decreases and Financing Uses	2,845	2,845	0
Increase (Decrease) in Cash and Investments		1,192	1,805	-613
508	Ending Cash and Investments	21,660	14,455	7,204

The accompanying notes are an integral part of this Statement.

City of South Bend

NOTES TO FINANCIAL STATEMENTS January 1, 2013 through December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of South Bend reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Account, and Reporting* System (BARS) manual. The basis of account 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 South Bend was incorporated on September 9, 1890 and operates under the law of the State of Washington applicable to a Mayor/Council form of government. The City is a general purpose government and provides general administrative services, public safety, a volunteer fire department, street improvement, parks and recreation, and water, sewer, and garbage services. The City of South Bend uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City of South Bend 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 of South Bend'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 of South Bend.

GOVERNMENTAL FUND TYPES:

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 revenues that are legally restricted or designated to finance particular activities of the City.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are designated for the acquisition or construction of general government capital projects.

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

Agency Funds

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

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 budget appropriation 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 State of America.

C. Budgets

The City of South Bend adopts annual appropriated budgets for all funds these budgets are adopted 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	Final Budgeted Amount	Actual Expenditures	Variance
001 Current Expense	\$1,143,422	\$1,015,387	\$128,035
101 Street Fund	169,754	85,118	84,636
102 Arterial Streets	750,000	556,911	193,089
103 Library	5,900	3,919	1,981
105 Tennis/Baseball	1,000	0	1,000
106 Docks	28,371	22,721	5,650
108 Drug Trust	8,560	4,084	4,476
110 Hotel/Motel Tax Fund	35,000	27,756	7,244
401 Water Operating Fund	1,693,573	797,728	895,845
404 Sewer Operating Fund	1,723,392	1,401,614	321,778
405 Mosquito Fund	116,406	77,771	38,635
411 Garbage	298,673	255,948	42,725
601 Investment Trust Funds – Utilities	4,500	2,845	1,655
610 Robert Bush Park Fund	2,000	739	1,261
701 HUD	1,000	525	475
	\$5,981,551	\$4,253,066	\$1,728,485

Budgeted amounts are authorized to be transferred between departments within any fund and between 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 Council.

D. Cash

It is the City of South Bend's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statement of fund resources and uses arising from cash transactions. The interest on these investments is posted to 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 of South Bend and are recorded as expenditures when purchased.

H. Compensated Absences

The City does record accumulated unused vacation and/or sick leave in its funds.

Vacation pay, which may be accumulated up to 15 days (120 hours), is payable in full upon separation from the City. Additionally, if employees have reached the 120 hour maximum, additional vacation accumulation is paid to the employee monthly.

Sick pay, which may be accumulated up to 90 days (720 hours), is payable at a rate of $\frac{1}{2}$ of the amount accumulated upon separation from the City. Additionally, if employees have reached the 720 hour maximum, additional sick time accumulation (up to 8 hours a month) is paid to the employee monthly.

I. Long Term Debt (See Note 6)

J. Other Financing Sources or Uses

The City of South Bend's "Other Financing Sources or Uses" consist of transfers in and out.

K. Risk Management

The City of South Bend 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 of the program.

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, is 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. Members are responsible for a \$1,000 of the deductible for each claim, 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 & Motors). Members are responsible for the deductible amount of each claim. There is no program self insured retention for 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 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 & 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.

L. Reserved Fund Balances

The City of South Bend has no commitments or restrictions on any fund balances.

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.

NOTE 3 – INVESTMENTS

The City of South Bend's investments are insured, registered in the City's name or held by the City. Investments by type as of December 31, 2013 are as follows:

Type of Investment	Balance
The Bank of the Pacific-Operating Account	\$139,283.52
The Bank of the Pacific-Municipal Court	\$13,402.84
Certificates of Deposit-B of A	\$15,800.00
Morgan Stanley-General	\$250,000.00
Morgan Stanley-Timber Funds	\$1,400,000.00
US Government Securities	\$ -0-
State Investment Pool	\$545,323.03
Total	<u>\$2,363,809.39</u>

NOTE 4 – PROPERTY TAXES

The Pacific County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month. Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied. The City's regular tax levy for 2013 was \$2.6919 per \$1,000 of assessed valuation of \$80,499,857 for a total regular levy of \$216,566.

NOTE 5 – INTERFUND LOANS

The City of South Bend established an interfund loan by Resolution #2012-04 on May 30, 2012. The interfund loan is for \$20,000 to 108-Drug Fund from 701-HUD Fund. It is for 5 years at 0.5%. Payments are \$4,060.20 per year beginning in May 2013. The money was used to purchase a new police vehicle.

The City of South Bend established an interfund loan by Resolution #2013-04 on November 25, 2013. The interfund loan is for \$50,000 to 401-Water Fund for \$25,000 and 404-Sewer Fund for \$25,000 from 701-HUD Fund. It is for 5 years at 0.5%. Payments are \$5,075.25 per year, per fund beginning in May 2014. The money was used to purchase a new 2014 Vacuum Pump Trailer.

Borrowing Fund	Lending Fund	Balance 01/01/2013	New Loans	Repayments	Balance 12/31/2013
108-Drug Trust	701-HUD	\$20,000	Ø	\$4,060.20	\$16,000
401-Water Fund	701-HUD	\$25,000	Ø	Ø	\$25,000
404-Sewer Fund	701-HUD	\$25,000	Ø	Ø	\$25,000

NOTE 6 – DEBT SERVICE

The accompanying Schedule of Long-Term Debt (09) provides more details of the outstanding debt and liabilities of the City of South Bend and summarizes the city's debt transactions for year ended December 31, 2013.

Debt service requirements, including interest are as follows:

	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2014	Ø	10,750	789,831	800,581
2015	Ø	9,400	786,842	796,242
2016	Ø	9,000	781,771	790,771
2017	Ø	8,600	776,701	785,301
2018	Ø	8,200	770,386	778,586
2019-2023	Ø	Ø	3,182,398	3,182,398
2024-2028	Ø	Ø	2,444,477	2,444,477
2029-2033	Ø	Ø	1,320,151	1,320,151
2034-2038	Ø	Ø	1,168,240	1,168,240
2039-2043	Ø	Ø	1,168,240	1,168,240
2044-2048	Ø	Ø	1,168,240	1,168,240
2049-2052	Ø	Ø	934,592	934,592
TOTAL	Ø	45,950	15,291,869	15,337,819

NOTE 7 – SUBSEQUENT EVENTS (LONG TERM DEBT)

The City of South Bend and the City of Raymond have jointly accepted an approximately \$30,000,000 funding package from USDA Rural Development for a new Regional Wastewater Treatment Plant (RWWTP). The funding package is 40% grant and 60% loan. The City of South Bend will be responsible for 35.62% of the total cost of the project. The lead city is Raymond. The project went out for bid in 2010. The groundbreaking was March 26, 2011. Even though the City of Raymond will be reporting the full amount of debt on their financial statements each year the City of South Bend's portion of the debt is reflected in Note 6 – Debt Service and it is included on Schedule 9.

NOTE 8 - PENSION PLAN

Substantially all full-time employees and qualifying part-time employees of the City of South Bend participate in Public Employees (PERS) and Law Enforcement and Fire Fighters (LEOFF) Retirement Systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution pertinent to the City's financial statements. Contributions to the systems by both employer and employee 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
P.O. Box 48380
Olympia, WA 98504-8380

Other Local Government Pension System

As of December 31, 2013, there were two LEOFF 1 individuals drawing benefits consisting of a city-paid long term care policy plus medical costs not reimbursed by health insurance.

NOTE 9 – OTHER DISCLOSURES- FUND ROLLUP

Fund #104 – Fire Equipment Reserve (\$2,560.00) was rolled up into Fund #001 – Current Expense (Ordinance #1472). Fund #107 – Emergency Fund (\$5,061.33) was rollup up into Fund #401 – Water Fund (Ordinance #1473). Fund #105 – Tennis Fund (\$1,113.99) was rolled up into Fund #110 – Hotel/Motel Tax Fund. The Tennis Fund was not established by ordinance. The tennis courts (no longer in use) that this fund was originally set aside for is part of the city's park plan so the money was transferred into the Fund #110 which covers all of the city's park maintenance.

NOTE 10 – SCHEDULE 09 CORRECTION

On Schedule 09, 252.11 Revenue Bonds with a *Date of Original Issue of 03/31/1977*, it was discovered while preparing the 2013 Annual Report that the *Ending Outstanding Debt 12/31/12* was incorrect. It appears that is had been reported incorrectly for several years. The *Amount Redeemed Current Year* was reduced by \$1,000 to bring the *Ending Outstanding Debt 12/31/13* into compliance so future reporting will be accurate.

City of South Bend

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							
	263.81	DWSRF Loan	10/1/2019	223,779	0	36,204	187,575
	263.81	PWTF Loan	7/1/2019	329,606	0	47,086	282,520
	263.81	PWTF Loan	7/1/2021	517,567	0	57,507	460,060
	263.81	DOE Loan	1/1/2022	656,401	0	50,492	605,909
	263.81	PWTF Loan	7/1/2027	315,788	0	21,053	294,735
	263.81	DWSRF Loan	6/1/2027	1,727,124	0	115,759	1,611,365
	263.81	PWTF Loan	7/1/2018	104,809	0	17,206	87,603
	263.81	DOE Loan	3/31/2028	415,029	0	23,965	391,064
	263.81	PWTF Loan	7/1/2028	853,800	0	48,271	805,529
	263.81	DOE Loan	1/1/2016	14,575	0	4,163	10,412
	263.81	DOE Loan	1/1/2031	1,077,750	0	52,822	1,024,928
	263.81	USDA Rural-SCH A	12/1/2052	3,068,307	0	24,531	3,043,776
	263.81	USDA Rural-SCH B	12/1/2052	3,205,800	0	25,630	3,180,170
	259.11	Compensated Absences		193,392	91,127	9,845	274,674
Total General Obligations:				12,703,727	91,127	534,534	12,260,320
Revenue Obligations							
	252.11	Revenue Bonds	3/31/2018	50,000	0	9,000	41,000
Total Revenue Obligations:				50,000	0	9,000	41,000
Total Liabilities:				12,753,727	91,127	543,534	12,301,320

The accompanying notes to the financial statements are an integral part of this schedule



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.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
Chief of Staff
Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
Deputy Director of Communications
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
Doug Cochran
Chuck Pfeil, CPA
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
Barb Hinton
Thomas Shapley
Mary Leider
(360) 902-0370
(866) 902-3900

Website
Subscription Service

www.sao.wa.gov
portal.sao.wa.gov/saoportal/Login.aspx