



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

City of Kettle Falls

Stevens County

For the period January 1, 2013 through December 31, 2013

Published September 15, 2014

Report No. 1012527





Washington State Auditor
Troy Kelley

September 15, 2014

Mayor and City Council
City of Kettle Falls
Kettle Falls, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Kettle Falls' 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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Federal Summary

**City of Kettle Falls
Stevens County
January 1, 2013 through December 31, 2013**

The results of our audit of the City of Kettle Falls 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>
66.458	Capitalization Grants for Clean Water State Revolving Funds

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 qualified 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 Kettle Falls
Stevens County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Kettle Falls
Kettle Falls, 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 Kettle Falls, Stevens 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 August 27, 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.

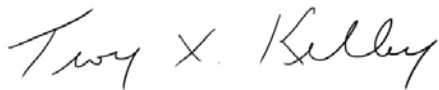
COMPLIANCE AND OTHER MATTERS

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

August 27, 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 Kettle Falls
Stevens County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Kettle Falls
Kettle Falls, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Kettle Falls, Stevens 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

August 27, 2014

Independent Auditor's Report on Financial Statements

City of Kettle Falls Stevens County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Kettle Falls
Kettle Falls, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Kettle Falls, Stevens 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 36.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Kettle Falls, 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 Kettle Falls, 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

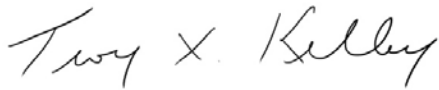
Supplementary and Other Information

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 August 27, 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

August 27, 2014

Financial Section

**City of Kettle Falls
Stevens County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
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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 GENERAL FUND	103 STREET FUND	140 TOURISM FUND
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	1,114,689	171,359	86,109	9,885
30880	Beg Fund Bal-Unreserved	1,774,309	188,062	81,885	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	779,758	675,349	100,630	3,780
320	Licenses & Permits	11,889	11,889	0	0
330	Intergovernmental Revenues	73,956	40,879	33,077	0
340	Charges for Goods and Services	1,566,539	57,405	0	0
350	Fines & Penalties	29,343	29,343	0	0
360	Miscellaneous Revenues	50,709	25,314	2,317	124
Total Operating Revenues:		2,512,194	840,180	136,023	3,904
Operating Expenditures					
510	General Government	171,461	171,461	0	0
520	Public Safety	437,422	437,422	0	0
530	Utilities	954,238	1,763	0	0
540	Transportation	108,574	0	108,574	0
550	Natural and Economic Environment	68,189	67,299	0	890
560	Social Services	6,209	6,209	0	0
570	Culture And Recreation	94,129	94,129	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		1,840,222	778,283	108,574	890
Net Operating Increase (Decrease):		671,972	61,897	27,449	3,014
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	106,372	100,108	0	0
391-393	Debt Proceeds	863,459	0	0	0
397	Transfers-In	1,550	0	0	0
Total Nonoperating Revenues:		971,381	100,108		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	98,376	98,376	0	0
591-593	Debt Service	95,594	4,800	20,432	0
594-595	Capital Expenditures	1,638,582	36,948	59,850	2,500
597	Transfers-Out	1,550	1,550	0	0
Total Nonoperating Expenditures:		1,834,102	141,675	80,282	2,500
Increase (Decrease) in Cash and Investments		-190,749	20,329	-52,833	514
Ending Cash and Investments					
50810	End Fund Bal-Reserved	284,967	199,310	75,259	10,399
50880	End Fund Balance-Unreserved	2,413,281	180,442	39,902	0

The accompanying notes are an integral part of this Statement.

BARS Code		401 WATER FUND	410 SEWER FUND	420 GARBAGE FUND
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	0	847,336	0
30880	Beg Fund Bal-Unreserved	855,812	520,024	128,526
38800/58800	Prior Period Adjustments, net	0	0	0
Operating Revenues				
310	Taxes	0	0	0
320	Licenses & Permits	0	0	0
330	Intergovernmental Revenues	0	0	0
340	Charges for Goods and Services	677,561	689,289	142,284
350	Fines & Penalties	0	0	0
360	Miscellaneous Revenues	2,692	10,722	9,540
Total Operating Revenues:		680,252	700,011	151,824
Operating Expenditures				
510	General Government	0	0	0
520	Public Safety	0	0	0
530	Utilities	433,333	368,063	151,079
540	Transportation	0	0	0
550	Natural and Economic Environment	0	0	0
560	Social Services	0	0	0
570	Culture And Recreation	0	0	0
598	Intergovernmental Payments	0	0	0
Total Operating Expenditures:		433,333	368,063	151,079
Net Operating Increase (Decrease):		246,920	331,948	745
Nonoperating Revenues				
370, 380, 395, 398	Other Financing Sources	1,895	1,316	3,053
391-393	Debt Proceeds	0	863,459	0
397	Transfers-In	1,550	0	0
Total Nonoperating Revenues:		3,445	864,775	3,053
Nonoperating Expenditures				
580, 596, 599	Other Financing Uses	0	0	0
591-593	Debt Service	0	70,362	0
594-595	Capital Expenditures	225,889	1,225,878	87,517
597	Transfers-Out	0	0	0
Total Nonoperating Expenditures:		225,889	1,296,240	87,517
Increase (Decrease) in Cash and Investments		24,476	-99,517	-83,719
Ending Cash and Investments				
50810	End Fund Bal-Reserved	0	0	0
50880	End Fund Balance-Unreserved	880,287	1,267,842	44,808

The accompanying notes are an integral part of this Statement.

CITY OF KETTLE FALLS

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kettle Falls 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 Kettle Falls was incorporated in 1892 and operates under the laws of the state of Washington applicable to an optional code City. The City of Kettle Falls is a general purpose government and provides public safety, fire protection, street maintenance, parks and general administration. In addition, the City owns and operates water and sewer systems and provides garbage service. 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 of Kettle Falls 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 Kettle Falls 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 Kettle Falls:

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund (Fund No. 001)

This fund is the primary operating fund of the City of Kettle Falls. It accounts for all financial resources except those required or elected to be accounted for in another fund. The City of Kettle Falls adopts a budget for the general fund or commonly called the current expense fund.

Special Revenue Fund (Funds in the 100 series and certain funds in the 400 series)

These funds account for revenues that are legally restricted or designated to finance particular activities of the City of Kettle Falls. The City of Kettle Falls adopts budgets for the following special revenue funds:

103 – Street
140 - Tourism

Debt Service Fund (Funds in the 200 series)

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt. The City of Kettle Falls adopts a budget for the LTGO Bond Fund (Fund No. 200).

PROPRIETARY FUND TYPES:

Enterprise Funds (Funds in the 400 series)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. The City of Kettle Falls adopts budgets for the following enterprise funds:

401 – Water
410 – Sewer
420 – Garbage

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 of Kettle Falls 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 of Kettle Falls adopts annual appropriated budgets for 18 funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at the 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	Actual	Variance
	Appropriated Amounts	Expenditures	
General Fund	\$ 1,010,032.80	\$ 861,704.97	\$ 148,327.83
Police Reserve Fund	\$ 10,000.00	\$ 12,068.84	\$ (2,068.84)
Current Exp. Reserve Fund	\$ 120,000.00	\$ 11,060.89	\$ 108,939.11
Fire Dept. Reserve Fund	\$ 51,860.00	\$ -	\$ 51,860.00
Library Fund	\$ 26,275.00	\$ 19,442.97	\$ 6,832.03
Library Reserve Fund	\$ 20,000.00	\$ 15,679.80	\$ 4,320.20
Total General Fund	\$ 1,238,167.80	\$ 919,957.47	\$ 318,210.33
Street Fund	\$ 164,100.00	\$ 139,684.27	\$ 24,415.73
Street Reserve Fund	\$ 39,500.00	\$ 28,740.00	\$ 10,760.00
LTGO Bond Fund	\$ 24,950.00	\$ 20,432.07	\$ 4,517.93
Total Street Fund	\$ 228,550.00	\$ 188,856.34	\$ 39,693.66
Tourism Fund	\$ 4,250.00	\$ 3,390.10	\$ 859.90
Water Fund	\$ 556,400.00	\$ 441,768.21	\$ 114,631.79
Water Connection Fund	\$ 22,500.00	\$ 174.68	\$ 22,325.32
Water Reserve Fund	\$ 416,000.00	\$ 217,279.02	\$ 198,720.98
Total Water Fund	\$ 994,900.00	\$ 659,221.91	\$ 335,678.09
Sewer Fund	\$ 441,850.00	\$ 350,342.21	\$ 91,507.79
Sewer Connection Fund	\$ 26,000.00	\$ 23.11	\$ 25,976.89
Sewer Reserve Fund	\$ 966,025.00	\$ 1,313,937.61	\$ (347,912.61)
Total Sewer Fund	\$ 1,433,875.00	\$ 1,664,302.93	\$ (230,427.93)
Garbage Fund	\$ 181,150.00	\$ 152,659.33	\$ 28,490.67
Garbage Reserve Fund	\$ 88,000.00	\$ 85,936.46	\$ 2,063.54
Total Garbage Fund	\$ 269,150.00	\$ 238,595.79	\$ 30,554.21
Grand Total	\$ 4,168,892.80	\$ 3,674,324.54	\$ 494,568.26

Budgeted amounts are authorized to be transferred 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's legislative body.

D. Cash

It is the City of Kettle Falls'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.

E. Deposits

The City's deposits and certificates of deposits are covered by Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. As required by state law, all deposits and investments of the City's funds are obligations of the U.S. Government, and Washington State Banks. As of December 31, 2013 the amount invested was \$1,105,506.93.

F. Investments

See Note No. 3, page 12

G. Derivatives and Similar Transactions

There were no derivatives or similar transactions in 2013.

H. Capital Assets

Capital assets are assets with an individual cost of more than \$100 and an estimated useful life in excess of 2 years. The capital assets of the City of Kettle Falls are recorded as expenditures when purchased.

I. Compensated Absences

Vacation leave may be accumulated up to 160 days and is payable upon separation or retirement.

Sick leave may accumulate up to 720 hours. Upon retirement employees receive payment for unused sick leave equal to one third of accrued sick leave, not to exceed 192 hours.

J. Long Term Debt

See Note No. 6, page 13.

K. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of the following:

1. Interfund transactions are classified as follows:

- a.** Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.
- b.** Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses."
- c.** Transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.

2. Non-Revenues and Non-Expenditures

The non-revenues and non-expenditures consist of:

- 1. Agency collections and disbursements

L. Risk Management

The **City of Kettle Falls** is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool 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 AWC RMSA was formed on January 1, 1989 when 32 municipalities 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 December 31, 2013, 91 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

M. Reserved Fund Balance

The City's Reserved Fund Balances consist of the following:

General Fund	\$199,309.79	
\$135,277.63		This is the accumulated ½ cent REET Tax governed by RCW 35.43.40
<u>\$ 64,032.16</u>		This reserved amount is accumulation of a transfer per an
\$199,309.79		agreement with Fire District #6 since 2008.
Street Fund	\$75,258.78	
\$69,822.15		Motor Vehicle tax RCW 82.36.025 and projects identified by the 6 year street plan.
<u>\$5,436.63</u>		LTGO Bond Fund – As per the USDA Contract for Loan # 97-02 (Snow Plow Truck) a specific fund is to be created for debt payment. This is the only use for this fund therefore monies are considered restricted.
\$75,258.78		
Tourism Fund	\$10,398.63	
\$10,398.63		This amount is Hotel/Motel taxes which is regulated by RCW 67.28
Grand Total Reserved Funds:	\$284,967.20	

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

The City of Kettle Falls received an Audit Finding for fiscal years 2008 and 2009. The "Description of the Condition" is provided as follows:

City staff did not have sufficient knowledge and experience in the proper preparation of the SEFA, which included unique non-cash transactions and American Recovery and Reinvestment Act (ARRA) grant money. Additionally, the review process did not prevent or detect errors and ensure the accuracy of the SEFA. These deficiencies in internal controls collectively represent a material weakness. (Audit Report #1005106, issued February 14, 2011)

NOTE 3 - INVESTMENTS

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

Types of Investments	Kettle Falls Own Investments	Investments Held by Kettle Falls as an Agent	Total
L.G.I.P	\$703,794.77	0.0	\$703,794.77
US Gov't Securities	\$401,712.16	0.0	\$401,712.16
TOTAL			\$1,105,506.93

There are no investments held by the City of Kettle Falls as an agent for other local governments, individuals or private organizations.

NOTE 4 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month. Property tax revenues are recognized when cash is received by the City of Kettle Falls. Delinquent taxes are considered fully collectable because a lien affixes to the property after taxes are levied.

The City's regular levy for 2013 was \$2.974044 per \$1,000 on an assessed valuation of \$81,121,844 for a total levy of \$241,259.

NOTE 5 - INTERFUND LOANS AND ADVANCES

There were no Interfund loans or advances in 2013.

NOTE 6 – Debt Service Requirements

The accompanying Schedule of Long Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Kettle Falls and summarizes the City of Kettle Falls' debt transactions for year ended December 31, 2013. Department of Ecology Loan #L10S00036 in the amount of \$3,998,116.50 was forgiven as of December 31, 2013. It is not included in the debt service requirements.

The debt service requirements for general obligation bonds and revenue bonds including both principle and interest, are as follows:

	General	Revenue	Other	Total
	Obligation Bonds	Bonds	Debt	Debt
2013	\$ 25,232.07	\$ 82,528.26	\$ -	\$ 107,760.33
2014	\$ 4,800.00	\$ 385,285.61	\$ -	\$ 390,085.61
2015	\$ 9,600.00	\$ 384,271.70	\$ -	\$ 393,871.70
2016	\$ 4,800.00	\$ 383,257.83	\$ -	\$ 388,057.83
2017	\$ 4,800.00	\$ 382,243.92	\$ -	\$ 387,043.92
2018-22	\$ -	\$ 1,884,835.32	\$ -	\$ 1,884,835.32
2023-27	\$ -	\$ 1,842,724.11	\$ -	\$ 1,842,724.11
2028-33	\$ -	\$ 1,620,682.43	\$ -	\$ 1,620,682.43
2034-38		\$ 156,897.49		\$ 156,897.49
TOTALS	\$ 49,232.07	\$ 7,122,726.67	\$ -	\$ 7,171,958.74

The City of Kettle Falls recognizes compensated absences as liabilities. The following depicts liabilities as of December 31, 2013 for vacation and sick leave according to current personnel policies.

General Obligation Liabilities	Beginning Balance	Additions	Reductions	Ending Balance
2013	\$ 13344.57	\$19,911.62	\$12,106.13	\$ 21,150.06

Revenue Liabilities	Beginning Balance	Additions	Reductions	Ending Balance
2013	\$ 17,453.05	\$ 16,319.36	\$ 19,143.20	\$ 14,629.21

NOTE 7 - PENSION PLANS

Substantially all City police full time personnel and qualifying part-time police employees participate in the statewide local government retirement system 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 system 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
P.O. Box 48380
Olympia, WA 98504-8380

Substantially all City non police full time personnel and qualifying part-time employees participate in individual IRA's located in institutions of the employees choice.

NOTE 8 – OTHER DISCLOSURES

The City of Kettle Falls has no other disclosures to report.

City of Kettle Falls

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	USDA #97-02	3/1/2015	19,106	0	19,106	0
	259.11	Compensated Absences	12/31/2014	13,345	19,912	12,106	21,150
	263.91	Vision Municipal Solutions	3/31/2017	0	28,800	4,800	24,000
		Total General Obligations:		32,451	48,712	36,012	45,150
Revenue Obligations							
	263.82	DOE - L1000036	1/30/2033	3,854,394	962,349	0	4,816,743
	263.82	DOE - L10S00036	1/30/2033	3,981,590	16,526	3,998,117	0
	263.82	USDA #97-01	3/1/2015	36,841	0	3,930	32,911
	263.82	PWTF - PW07-962-PWP	7/1/2013	10,024	0	10,024	0
	263.82	PWTF - PRO8-951-060	7/1/2028	811,111	0	50,694	760,417
	259.12	Compensated Absences	12/31/2014	17,453	16,319	19,143	14,629
		Total Revenue Obligations:		8,711,413	995,195	4,081,908	5,624,700
		Total Liabilities:		8,743,864	1,043,906	4,117,920	5,669,850

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	
Office Of Community Planning And Development, Department Of Housing And Urban Development/Washington State Dept of Commerce CDBG	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	10-64100-021	60,520		60,520	4
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	2012-2013 WASPC Traffic Safety Emergency Funds	1,000		1,000	2
Office Of Water, Environmental Protection Agency/WA State Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1000036	1,050,445		1,050,445	4
Office Of Water, Environmental Protection Agency/Washington State Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S00036	16,526		16,526	4
Total CFDA 66.458				1,066,971	0	1,066,971	
Total Federal Awards Expended:				1,128,491	0	1,128,491	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

CITY OF KETTLE FALLS, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS January 1, 2013 Through December 31, 2013

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Kettle Falls's financial statements. The City of Kettle Falls uses cash basis accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only federal grant portion of the program costs. Entire program costs, including the City of Kettle Falls portion, may be more than shown.

NOTE 3 – REVOLVING LOAN – PROGRAM INCOME

The City of Kettle Falls does not have a revolving loan program for low income housing. The amount of loan funds disbursed to program participants for the year was \$0.00 and is presented in this schedule. The amount of principal and interest received in loan repayment for the year was \$0.00.

NOTE 4 – FEDERAL LOANS

The City of Kettle Falls received federal loans in 2005, 2007, 2011, 2012 and 2013. Payments for these loans are paid once per year and began in 2006 and 2008. Payment for the federal loans received in 2011, 2012 and 2013 will begin in January, 2014. Loans are reported on the City of Kettle Falls Schedule of Long Term Debt.

NOTE 5 – NONCASH AWARDS

The City received no non-cash federal awards in 2013.

NOTE 6 – NONCASH AWARDS – EQUIPMENT

The City of Kettle Falls did not receive equipment and supplies purchased with federal Homeland Security funds by the state of Washington.

NOTE 7 – INDIRECT COST RATE

The City received no indirect costs of federal awards in 2013.

NOTE 8 – AMOUNTS AWARDED TO SUBRECIPIENTS

The City had no expenditures for any program passed through to a subrecipient.

NOTE 9 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

The City had no expenditures funded by ARRA

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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

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