



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements and Federal Single Audit Report**

### **City of Ilwaco**

**Pacific County**

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

**Published September 18, 2014**

**Report No. 1012561**





## **Washington State Auditor Troy Kelley**

September 18, 2014

Mayor and City Council  
City of Ilwaco  
Ilwaco, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Ilwaco'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,

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

TROY KELLEY  
STATE AUDITOR

# Table of Contents

## **City of Ilwaco Pacific County January 1, 2013 through December 31, 2013**

Federal Summary .....	4
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 .....	6
Independent Auditor's Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133 .....	8
Independent Auditor's Report On Financial Statements .....	11
Financial Section.....	14
About The State Auditor's Office.....	27

# Federal Summary

## City of Ilwaco Pacific County January 1, 2013 through December 31, 2013

The results of our audit of the City of Ilwaco 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>
66.468	Capitalization Grants for Drinking 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 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 Ilwaco  
Pacific County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Ilwaco  
Ilwaco, 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 Ilwaco, 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 September 9, 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.

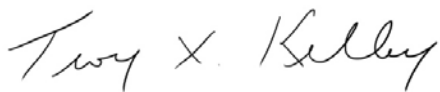
## ***COMPLIANCE AND OTHER MATTERS***

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

September 9, 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 Ilwaco  
Pacific County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Ilwaco  
Ilwaco, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the City of Ilwaco, Pacific 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

September 9, 2014

# **Independent Auditor's Report on Financial Statements**

## **City of Ilwaco Pacific County January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Ilwaco  
Ilwaco, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the City of Ilwaco, 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 14.

#### ***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 Ilwaco 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 Ilwaco, 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 Ilwaco, 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***

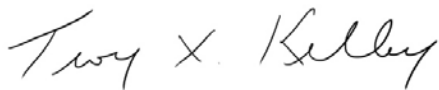
#### ***Supplementary and Other Information***

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 September 9, 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

September 9, 2014

## **Financial Section**

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

### ***FINANCIAL STATEMENTS***

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

**City of Ilwaco**  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
For the Year Ended December 31, 2013

BARS Code	Total for All funds*	001 General Fund	101 City Streets	104 Tourism/Celebration	301 Excise Reserve	401 Water	408 Stormwater	409 Wastewater Treatment
<b>Beginning Cash and Investments</b>								
30810 Beg Fund Bal-Reserved	343,790	0	25,713	0	0	0	0	318,077
30880 Beg Fund Bal-Unreserved	351,545	109,562	7,006	50,613	12,630	56,617	3,898	111,219
38800/58880 Prior Period Adjustments, net	0	0	0	0	0	0	0	0
<b>Operating Revenues</b>								
310 Taxes	695,056	586,838	61,508	38,061	8,647	0	0	0
320 Licenses & Permits	57,141	57,141	0	0	0	0	0	0
330 Intergovernmental Revenues	526,225	73,524	315,305	0	0	137,396	0	0
340 Charges for Goods and Services	1,702,638	4,892	0	0	0	654,289	76,474	966,983
350 Fines & Penalties	5,749	5,749	0	0	0	0	0	0
360 Miscellaneous Revenues	58,554	29,620	61	61	18	14,541	14	14,238
<b>Total Operating Revenues:</b>	<b>3,045,362</b>	<b>757,764</b>	<b>376,875</b>	<b>38,122</b>	<b>8,666</b>	<b>806,225</b>	<b>76,488</b>	<b>981,221</b>
<b>Operating Expenditures</b>								
510 General Government	165,369	165,369	0	0	0	0	0	0
520 Public Safety	298,155	298,155	0	0	0	0	0	0
530 Utilities	898,046	0	0	0	0	462,908	28,958	406,180
540 Transportation	59,767	0	59,767	0	0	0	0	0
550 Natural and Economic Environment	41,671	11,323	0	30,348	0	0	0	0
560 Social Services	127	127	0	0	0	0	0	0
570 Culture And Recreation	91,057	90,916	0	141	0	0	0	0
598 Intergovernmental Payments	0	0	0	0	0	0	0	0
<b>Total Operating Expenditures:</b>	<b>1,554,193</b>	<b>565,890</b>	<b>59,767</b>	<b>30,489</b>	<b>0</b>	<b>462,908</b>	<b>28,958</b>	<b>406,180</b>
<b>Net Operating Increase (Decrease):</b>	<b>1,491,169</b>	<b>191,874</b>	<b>317,108</b>	<b>7,633</b>	<b>8,666</b>	<b>343,318</b>	<b>47,530</b>	<b>575,041</b>
<b>Nonoperating Revenues</b>								
370, 380, 395, 398 Other Financing Sources	39,918	3,061	0	0	0	14,757	0	22,100
391-393 Debt Proceeds	1,807,811	48,694	0	0	0	821,230	0	937,887
397 Transfers-In	35,000	30,000	5,000	0	0	0	0	0
<b>Total Nonoperating Revenues:</b>	<b>1,882,729</b>	<b>81,755</b>	<b>5,000</b>	<b>0</b>	<b>0</b>	<b>835,987</b>	<b>0</b>	<b>959,986</b>
<b>Nonoperating Expenditures</b>								
580, 596, 599 Other Financing Uses	0	0	0	0	0	0	0	0
591-593 Debt Service	505,715	138,438	0	0	0	27,660	31,923	307,694
594-595 Capital Expenditures	2,438,011	73,096	303,526	0	0	1,085,333	5,549	970,507
597 Transfers-Out	35,000	0	10,000	0	5,000	7,500	5,000	7,500
<b>Total Nonoperating Expenditures:</b>	<b>2,978,726</b>	<b>211,534</b>	<b>313,526</b>	<b>0</b>	<b>5,000</b>	<b>1,120,493</b>	<b>42,472</b>	<b>1,285,702</b>
<b>Increase (Decrease) in Cash and Investments</b>	<b>395,172</b>	<b>62,094</b>	<b>8,582</b>	<b>7,633</b>	<b>3,666</b>	<b>58,812</b>	<b>5,058</b>	<b>249,326</b>
<b>Ending Cash and Investments</b>								
50810 End Fund Bal-Reserved	357,827	0	0	0	0	30,649	0	327,178
50880 End Fund Balance-Unreserved	732,679	171,658	41,301	58,246	16,296	84,780	8,955	351,443

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

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

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

The City of Ilwaco reports financial activity using the revenues 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 Ilwaco was incorporated in 1891 and operates under the laws of the State of Washington applicable to a non-chartered code city retaining the mayor-council plan of government. The City of Ilwaco is a general purpose government and provides public safety, fire protection, street improvement, parks and recreation, health and social services, and general administrative services. In addition, the city owns and operates water, storm water, and sewer systems. The City of Ilwaco 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 Ilwaco are organized by fund, 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 Ilwaco's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are fund types used by the City of Ilwaco:

**GOVERNMENTAL FUND TYPES**

**General (Current Expense) Fund (001)**

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

**Special Revenue Funds (100-199)**

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

**Capital Project Funds (300 – 399)**

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



## PROPRIETARY FUND TYPES:

### Enterprise Funds (400-499)

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

## FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the City of Ilwaco in a trustee capacity or as an agent on behalf of others.

### Agency Funds (631-699)

These funds are used to account for assets that the City of Ilwaco 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 appropriations as required by state law.

In accordance with state law the City of Ilwaco 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 Ilwaco adopts annual appropriated budgets for the general, special revenue, capital project, and enterprise funds. These budgets are adopted at the fund level. The budgets constitute 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:

	Final Appropriated	Actual	
Fund	Amounts	Expenditures	Variance
General (Current Expense) Fund	\$937,453	\$949,081	(11,628)
Streets Fund	519,393	414,594	104,799
Tourism/Celebration Funds	86,743	88,735	(1,992)
Excise Reserve Fund	23,630	21,296	2,334
Stormwater Fund	80,898	80,386	512
Water Fund	3,426,316	1,698,829	1,727,487
Water/Sewer Bond Redemption Fund	333,483	312,048	21,435
Water/Sewer Bond Reserve Fund	327,179	327,179	0
Wastewater Fund	2,369,558	2,052,426	317,132
Total All Funds	\$8,104,653	\$5,944,575	\$2,160,078

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. The following appropriations contained in the 2013 Budget were amended during the year as follows: General Fund #001- Revenues were increased due to additional tax collection as well as the adjustment in the beginning and ending fund balances. Streets Fund #101 – Adjustments were made for additional grant funding. Tourism/Celebration Fund #104 - Additional lodging tax remitted to the city resulted in an amendment to revenues. Water Fund #401 – Adjustments were made for increased receipts. Wastewater Fund #409– Revenue and expenditure increases were increased for an additional project.

d. Cash

It is the City of Ilwaco's policy to invest 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 are insured by Federal Deposit Insurance Corporation or by the Washington Public Deposit Protection Commission.

f. Investments See Note 3, *Investments*

g. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000. The capital assets of the City of Ilwaco are recorded as expenditures when purchased.

h. Compensated Absences

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

Sick leave may accumulate up to one thousand hours. Upon separation employees do not receive payment for unused sick leave. Upon retirement or death employees receive 25% of any accrued but unused sick leave.

i. Long-Term Debt See Note 5, *Debt Service Requirements*

j. Other Financing Sources Or Uses

The City of Ilwaco's *Other Financing Sources or Uses* consist of Transfers-in and out between funds for costs related to common use buildings and equipment or reserve contributions to project expenditures.

k. Risk Management

The City of Ilwaco 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.

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, which is subject to a per-occurrence self-insured retention of \$100,000. Members are responsible for a \$1,000 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 with the exception of earthquake. 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 by the pool to the third party administrator under this arrangement for the year ended August 31, 2013 were \$1,423,059.

#### 1. Reserved Fund Balance

The City of Ilwaco Water Fund (401) holds retained funds of \$30,649 from construction projects that has not yet been closed out. Additionally, the Sewer Fund (409) includes reserved funds of \$327,178 as required by multiple debt obligations.

#### NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

The following governmental budgetary funds had expenditures and other financing uses in excess of the amount appropriated for the fiscal year 2013:

##### Excess of Expenditures Over Amount Appropriated

<u>Fund</u>	<u>Amount</u>	<u>Percent</u>	<u>Explanation</u>
001 General (Current Expense) Fund	(11,628)	1.2%	Additional loan proceeds
104 Tourism/Celebration Funds	(1,992)	2.3%	Unbudgeted tax receipts

#### NOTE 3 – INVESTMENTS

The City of Ilwaco's investments are insured, registered or held by the City or its agent in the City of Ilwaco's name. Investments are presented at cash value.

Investments by type at December 31, 2013 are as follows:

Type of Investment	City of Ilwaco's Own investments	Investments held by city as an agent for other local governments, individuals or private organizations	Total
L.G.I.P.	\$808,705	0	\$808,705
U.S. Government Securities			
Other			
<b>Total</b>	<b>\$808,705</b>	<b>0</b>	<b>\$808,705</b>

#### 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 after the end of each month.

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

The City of Ilwaco's regular levy for the year 2013 was 1.723327 per \$1,000 on an assessed valuation of \$116,876,191 for a total regular levy of \$201,416.

#### NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for the year ended December 31, 2013. The debt service requirements for general obligation bonds and revenue bonds including both principal and interest for existing and partially funded obligations are as follows:

<b>Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Other Debt</b>	<b>Total Debt</b>
2013	\$126,252	\$371,231		\$497,483
2014	136,044	525,502		661,546
2015	136,044	589,980		726,024
2016	136,044	622,466		758,510
2017	132,780	619,991		752,771
2018-2022	588,196	2,661,933		3,250,129
2023-2027	625,846	2,238,765		2,864,611
2028-2032	154,865	1,842,122		1,996,987
2033- 2037	0	324,800		324,800
2038-2042	0	63,162		63,162
<b>TOTALS</b>	<b>\$2,036,071</b>	<b>\$9,859,952</b>		<b>\$11,896,023</b>

#### NOTE 6 – PENSION PLANS

Substantially all City of Ilwaco full-time and qualifying part-time employees participate in the PERS II or PERS III local government retirement systems 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 of Ilwaco'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  
PO Box 48380  
Olympia, WA 98504-8380

## NOTE 7 – OTHER DISCLOSURES

### Construction Commitments

The City of Ilwaco has active construction projects as of December 31, 2013.  
The projects include:

Construction of Indian Creek Reservoir  
Construction of City Center Reservoir  
Replacement of First Avenue Sewer Line and Flow Meter and Brumbach Avenue Overlay

At year-end the city's commitments to contractors are as follows:

<b>Project</b>	<b>Disbursed as of 12/31/2013</b>	<b>Remaining Commitment</b>	<b>Funding Source</b>
Indian Creek Reservoir	\$432,328	\$29,412	Drinking Water State Revolving Fund
City Center Reservoir	197,809	655,679	Drinking Water State Revolving Fund
First Avenue Sewer/Brumbach Ave. Overlay	913,636	6,342	Clean Water State Revolving Fund

### Contingencies & Litigations

There were no pending lawsuits against the city as of December 31, 2012. Subsequently, there was a suit filed in Pacific County Superior Court on March 4, 2013 by a former employee. The suit was dismissed on June 5, 2014.

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							
	251.11	2001 General Obligation - City Hall	12/14/2021	192,329		17,600	174,729
	251.11	2009 General Obligation - Fire Station	8/3/2029	694,907		43,083	651,824
	251.11	2009 General Obligation - Community Building	5/1/2024	254,407		17,103	237,304
	263.91	2013 John Deer Financial: Boom Mower	8/18/2013	0	48,694	3,706	44,988
Total General Obligations:				1,141,643	48,694	81,492	1,108,845

Schedule of Liabilities  
For the year ended December 31, 2013

Revenue Obligations					
252.11	1995 PW Trust Fund Water Plant improvements	7/1/2014	7,987	3,994	3,993
252.11	1987 USDA Rural Development Water Intertie	10/1/2027	45,520	2,104	43,416
252.11	1999 Dept. of Ecology SRF Wastewater Treatment Plant	7/31/2019	730,155	104,308	625,847
252.11	2002 Dept. of Ecology Storm water plan	12/31/2021	35,218	3,309	31,909
252.11	1997 PW Trust Fund Side Sewer replacement	7/1/2017	65,592	13,119	52,473
252.11	2005 PW Trust Fund Side Sewer replacement	7/1/2024	17,955	1,497	16,458
252.11	2005 PW Trust Fund Side Sewer replacement	7/1/2024	17,955	1,497	16,458
252.11	2005 PW Trust Fund Side Sewer replacement	7/1/2025	263,386	20,260	243,126
252.11	2005 PW Trust Fund Side Sewer replacement	7/1/2025	263,386	20,260	243,126
252.11	2005 PW Trust Fund Water Plant - 3 phase power	10/1/2025	220,332	16,949	203,383
252.11	2006 PW Trust Fund Wastewater: Vandalia pumps	7/1/2026	175,826	12,559	163,267
252.11	2008 Bank of Pacific Wastewater: Vandalia pump station	1/5/2028	315,844	14,419	301,425
252.11	2010 PW Trust Fund Wastewater: First Avenue	7/1/2014	19,909	9,954	9,955
252.11	2012 Dept. of Ecology Wastewater First Avenue	12/31/2033	0	876,351	876,351
252.11	2012 Dept. of Ecology Wastewater Sahalee Pre-design	12/31/2018	0	36,315	36,315
252.11	2013 PW Trust Fund Wastewater: Nesadi Avenue	6/1/2042	5,990	25,219	31,209
252.11	2011 Drinking Water SRF: City Center Reservoir	10/1/2035	48,902	304,311	353,213
252.11	2011 Drinking Water SRF: Backwash Basin	10/1/2035	16,188	7,590	23,778
252.11	2011 Drinking Water SRF: Indian Creek Reservoir	10/1/2035	28,171	509,329	537,500
252.11	2012 Dept. of Ecology Debt Refinance (USDA)	10/15/2032	3,212,911	28,163	3,184,747
259.12	Compensated Absences		15,911	3,925	19,836
263.99	Short Term Note		42,500	2,500	40,000
<b>Total Revenue Obligations:</b>			<b>5,549,638</b>	<b>1,763,040</b>	<b>254,891</b>
<b>Total Liabilities:</b>			<b>6,691,281</b>	<b>1,811,734</b>	<b>336,383</b>
					<b>7,057,787</b>
					<b>8,166,632</b>



## 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 Water, Environmental Protection Agency/Washington State Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1300003	7,154		7,154	2
Office Of Water, Environmental Protection Agency/Washington State Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1300006	5,541		5,541	2
Office Of Water, Environmental Protection Agency/Washington State Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1300006s	5,541		5,541	2
<b>Total CFDA 66.458</b>				<b>18,236</b>	<b>0</b>	<b>18,236</b>	
Office Of Water, Environmental Protection Agency/Washington State Department of Health	Capitalization Grants for Drinking Water State Revolving Funds	66.468	N19626	13,221		13,221	
Office Of Water, Environmental Protection Agency/Washington State Department of Commerce Public Works Board	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM11-952-015 City Center Reservoir	294,456		294,456	2
Office Of Water, Environmental Protection Agency/Washington State Department of Commerce Public Works Board	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM11-952-017 Backwash Basin	2,147		2,147	2
Office Of Water, Environmental Protection Agency/Washington State Department of Commerce Public Works Board	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM11-952.016 Indian Creek Reservoir	435,960		435,960	2
<b>Total CFDA 66.468</b>				<b>745,784</b>	<b>0</b>	<b>745,784</b>	
<b>Total Federal Awards Expended:</b>				<b>764,020</b>	<b>0</b>	<b>764,020</b>	

# **CITY OF ILWACO**

## **NOTES TO THE 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 of Ilwaco's financial statements. The City uses the cash basis of accounting. Revenues are recognized only when cash is received and expenditures are recognized when paid.

### **NOTE 2 - FEDERAL LOANS & AWARDS**

(a) During 2012, the City of Ilwaco was approved by the Environmental Protection Agency and the Washington State Department of Commerce Public Works Board to receive three loans: 1) a loan for \$99,000 to re-build the water plant backwash basin, 2) a loan for \$585,000 to replace a water reservoir for city center, and 3) a loan for \$1,130,000 to add a water reservoir near Indian Creek.

(b) Additionally, the City of Ilwaco was approved by the Environmental Protection Agency and the Washington State Department of Ecology to receive three loans: 1) a loan for \$3,251,094 to refinance USDA debt owed by the sewer utility which was fully funded in 2012, 2) a loan for \$794,000 to improve the First Avenue North sewer line, and 3) a loan for \$44,500 to initiate Sahallee sewer improvements.

The amount listed for each loan includes the proceeds only used during the year as they are considered awards for these purposes. Both the current and prior year loans are also reported on the City of Ilwaco's Schedule of Long-Term Liabilities.

## 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.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>