



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

City of Tekoa

Whitman County

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

Published September 18, 2014

Report No. 1012562





Washington State Auditor
Troy Kelley

September 18, 2014

Mayor and City Council
City of Tekoa
Tekoa, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Tekoa'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

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

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Federal Summary

City of Tekoa Whitman County January 1, 2013 through December 31, 2013

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

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

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

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

The City 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 Tekoa
Whitman County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Tekoa
Tekoa, 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 Tekoa, Whitman 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 2, 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.

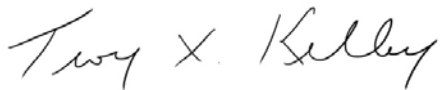
COMPLIANCE AND OTHER MATTERS

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 2, 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 Tekoa
Whitman County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Tekoa
Tekoa, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Tekoa, Whitman 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 2, 2014

Independent Auditor's Report on Financial Statements

City of Tekoa Whitman County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Tekoa
Tekoa, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Tekoa, Whitman 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 Tekoa 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 Tekoa, 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 Tekoa, 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

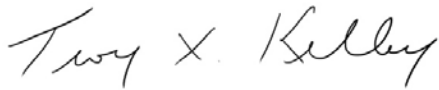
Supplementary and Other Information

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 2, 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 2, 2014

Financial Section

**City of Tekoa
Whitman 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

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Fund	102 Cemetery Memorial	103 Cemetery Endowment
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	147,973	0	8,381	107,856
30880	Beg Fund Bal-Unreserved	730,672	223,407	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	281,133	211,776	0	0
320	Licenses & Permits	1,828	1,828	0	0
330	Intergovernmental Revenues	1,707,132	66,274	0	0
340	Charges for Goods and Services	547,120	120,877	0	2,050
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	16,638	6,217	519	104
Total Operating Revenues:		2,553,851	406,972	519	2,154
Operating Expenditures					
510	General Government	109,329	109,329	0	0
520	Public Safety	91,942	91,942	0	0
530	Utilities	433,530	132,435	2,695	0
540	Transportation	110,481	0	0	0
550	Natural and Economic Environment	5,157	5,157	0	0
560	Social Services	160	160	0	0
570	Culture And Recreation	8,537	8,537	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		759,136	347,560	2,695	
Net Operating Increase (Decrease):		1,794,715	59,412	-2,176	2,154
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	8,917	7,897	0	0
391-393	Debt Proceeds	39,377	0	0	0
397	Transfers-In	5,609	4,409	0	0
Total Nonoperating Revenues:		53,903	12,306		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	1,611	1,611	0	0
591-593	Debt Service	90,873	0	0	0
594-595	Capital Expenditures	1,647,415	44,367	0	0
597	Transfers-Out	5,609	700	0	0
Total Nonoperating Expenditures:		1,745,508	46,678		
Increase (Decrease) in Cash and Investments		103,110	25,040	-2,176	2,154
Ending Cash and Investments					
50810	End Fund Bal-Reserved	144,490	0	6,205	110,010
50880	End Fund Balance-Unreserved	837,264	248,447	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		104 Streets & Roads	105 Airport Fund	401 Water Fund	402 Sewer Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	21,615	10,121
30880	Beg Fund Bal-Unreserved	-18,711	2,332	349,112	174,532
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	69,357	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	807,483	0	349,385	483,990
340	Charges for Goods and Services	0	0	235,494	188,699
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	45	3,830	3,185	2,738
Total Operating Revenues:		876,885	3,830	588,064	675,427
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	128,098	170,302
540	Transportation	108,270	2,211	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		108,270	2,211	128,098	170,302
Net Operating Increase (Decrease):		768,615	1,619	459,966	505,125
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	1,020	0	0	0
391-393	Debt Proceeds	0	0	0	39,377
397	Transfers-In	0	0	1,200	0
Total Nonoperating Revenues:		1,020		1,200	39,377
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	75,240	15,633
594-595	Capital Expenditures	721,108	0	353,573	528,367
597	Transfers-Out	500	0	4,409	0
Total Nonoperating Expenditures:		721,608		433,222	544,000
Increase (Decrease) in Cash and Investments		48,027	1,619	27,944	502
Ending Cash and Investments					
50810	End Fund Bal-Reserved	433	0	17,721	10,121
50880	End Fund Balance-Unreserved	28,883	3,951	380,949	175,034

The accompanying notes are an integral part of this Statement.

CITY OF TEKOA, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

January 1, 2013 through December 31, 2013

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

The City of Tekoa 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 Tekoa was incorporated in 1889 and operates under the laws of the State of Washington applicable to a second class city. The City of Tekoa is a general purpose government and provides public safety, fire prevention, street improvement, parks and recreation, health and social services and general administrative services. In addition, the City of Tekoa owns and operates its own water and sewer system. The City of Tekoa 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 Tekoa 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 Tekoa's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types and account groups used by the City of Tekoa.

GOVERNMENTAL FUND TYPES:

Current Expense Fund 001

This fund is the primary operating fund of the City of Tekoa. 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 restricted or committed to expenditures for specified purposes of the City of Tekoa.

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.

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 Tekoa 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 Tekoa adopts annual appropriated budgets for general, special revenue and enterprise funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund			
General Fund	368,928.60	362,045.61	6,882.99
Cemetery Department	33,400.00	23,019.41	10,380.59
Fire Department	26,637.27	17,082.61	9,554.66
Criminal Justice Fund	66,100.00	59,714.36	6,385.64
Total 001 - General Fund	495,065.87	461,861.99	33,203.88
102 - Cemetery Memorial	9,289.69	2,695.00	6,594.69
103 - Cemetery Endowment	1,000.00		1,000.00
104 - Streets & Roads			
Streets & Roads	166,140.33	120,231.43	45,908.90
TIB Warren Street Grant	706,837.00	675,712.62	31,124.38
CERB Truck By-pass Grant	51,200.00	49,930.88	1,269.12
CDBG Planning Only Street Grant	24,000.00		24,000.00
Total 104 - Streets & Roads	948,177.33	845,874.93	102,302.40
105 - Airport Fund	5,913.96	2,210.62	3,703.34
401 - Water Fund			
Water Fund	293,195.00	203,337.95	89,857.05
Water Reserve	115,268.00	80,240.00	35,028.00
Water Debt Service			
Water & Sewer Line Replacement	11,130.09		11,130.09
CDBG Water System Grant	54,484.05	34,350.56	20,133.49
USDA RD Water Loan/Grant	1,110,000.00	318,631.01	791,368.99
Total 401 - Water Fund	1,584,077.14	636,559.52	947,517.62
402 - Sewer Fund			
Sewer Fund	238,100.00	202,933.71	35,166.29
Sewer Debt Service			
CDBG Capital Sewer Project	464,498.00	445,499.22	18,998.78
Sewer Reserve Plant Project	0.00	5,000.00	-5,000.00
DOE Sewer Line Rplmnt Planning Gr/Loan	108,400.00	77,867.92	30,532.08
Total 402 - Sewer Fund	810,998.00	731,300.85	79,697.15

Budgeted amounts are authorized to be transferred between departments within any fund; 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 of Tekoa's legislative body. We exceeded our budget in the Sewer Reserve Plant Project because it was not included in the final budget amendment that was done for 2013.

D. CASH

It is the City of Tekoa'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 of Tekoa deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC), and/or the Washington Public Deposit Protection Commission (WPDPC).

F. INVESTMENTS

See Investment Note #2

G. CAPITAL ASSETS

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

H. COMPENSATED ABSENCES

Vacation leave may be accumulated up to 40 hours and is payable upon separation or retirement. Our vacation and sick leave long term liability for governmental compensated absences is \$2,926.69 and proprietary compensated absences is \$8,345.52.

Sick leave may accumulate up to 240 hours. Upon separation or retirement employees do not receive payment for unused sick leave, except Duane Groom who was grandfathered in when this policy was adopted. If Duane Groom quit, we would owe him \$5,887.00 for his sick leave hours.

Compensatory time must be used by October 1st, or the employee may request an extension from the City Council.

I. LONG-TERM DEBT

See Long-Term Debt Note #5

J. OTHER FINANCING SOURCES OR USES

The City of Tekoa other financing sources consists of interfund transfers and loan proceeds.

K. RISK MANAGEMENT

The City of Tekoa 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 pool was formed on September 1, 1989 when 32 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 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 it 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.

NOTE L. RESERVED FUND BALANCES

The City of Tekoa has several funds that are reserved. The Cemetery Memorial Fund is reserved because it was donated specifically from memorials for the cemetery. It can only be used to purchase items in memory of people. The Cemetery Endowment Fund is also reserved. Ordinance No. 374 and 682 says, "All monies in the Endowment Fund shall be held in trust and shall be invested in the manner provided for investment of endowment card by RCW 68.44.030

and 30.24.020. The income earned from such investment shall be paid into the Cemetery Fund or may be retained in the Endowment Fund as an addition to principal.”

The City has a water reserve fund that was originally used to save money for the update to the water reservoir and water lines and the replacement of the well. Since we received grants for these upgrades, we will use the money to pay back the USDA RD loan over the next 40 years, in addition to the money that we collect on a yearly basis from the water utility payments.

We also have a sewer reserve fund that we have used to pay back the sewer loan for the sewer line replacements over the years. It is also used to save money for upgrades to the sewer lines that we make ourselves, to upgrades we did to the sewer plant this last year, and for the repayment of the upcoming DOE loan for the sewer line replacement.

NOTE 2 - INVESTMENTS

The City of Tekoa’s investments are either insured, registered or held by the city or its agent in the city’s name.

Investments are presented at the fund level.

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

	Bank of Fairfield	\$ 122,474.28	Total CDs
	US Bank Cem Endowment	\$ 102,421.72	
	US Bank	\$ 101,941.38	
	US Bank	\$ 50,970.69	
Savings	American West Bank		
	-Debt Service Reserve Sewer	\$ 10,008.62	
	-Debt Service Reserve Water	\$ 17,341.30	
Savings	State Investment Pool	\$ 374,791.91	

NOTE 3 - 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 from the county. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Tekoa's regular levy for 2013 was \$2.81129600 per \$1,000 on an assessed valuation of \$27,658,833 for a total regular levy of \$69,609.02. The special street levy for 2013 was \$2.0556400 per \$1,000 on an assessed valuation of \$27,658,833 for a total special levy of \$50,002.82.

NOTE 4— INTERFUND LOANS AND ADVANCES

The City of Tekoa had no interfund loans in 2013.

NOTE 5 - DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides a listing of the outstanding debt of the City of Tekoa and summarizes the city's debt transactions for year ended December 31, 2013. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

Year	Revenue Debt
2014	143,179
2015	143,144
2016	143,110
2017	143,075
2018	136,885
2019-2023	644,923
2024-2028	611,230
2029-2033	576,340
2034-2038	576,340
2039-2043	576,340
2044-2048	576,340
2049-2052	459,658
Total	<u>4,730,565</u>

NOTE 6 - PENSION PLANS

Substantially all City of Tekoa full-time and qualifying part-time employees participate in the Public Employee Retirement System (PERS I) 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 Tekoa's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained in writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380.

NOTE 7 – OTHER DISCLOSURES

During 2013, there were no other disclosures.

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 Water Loan	1/1/2052	2,736,000	0	0	2,736,000
	263.81	Dpt of Ecology Sewer Loan	8/6/2022	75,943	0	7,092	68,850
	263.81	PWTF Sewer Loan PC08-951-048	7/1/2028	109,997	0	6,875	103,122
	263.81	DOE Sewer Planning Loan	12/31/2017	14,265	39,377	0	53,642
	259.11	Governmental Compensated Absences		11,685		8,758	2,927
		Total General Obligations:		2,947,889	39,377	22,725	2,964,541
Revenue Obligations							
	259.12	Proprietary Compensated Absences		0	8,346		8,346
		Total Revenue Obligations:		0	8,346		8,346
		Total Liabilities:		2,947,889	47,722	22,725	2,972,886

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Rural Utilities Service, Department Of Agriculture/	Water and Waste Disposal Systems for Rural Communities	10.760	N/A		318,631	318,631	1,2
Office Of Community Planning And Development, Department Of Housing And Urban Development/WA State Dept Of Commerce	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	10-64100-031	29,942		29,942	1,2
Office Of Community Planning And Development, Department Of Housing And Urban Development/WA State Dept Of Commerce	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	12-65400-052	445,499		445,499	1,2
Total CFDA 14.228				475,441	0	475,441	
Total Federal Awards Expended:				475,441	318,631	794,072	

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

City of Tekoa

**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 Tekoa's financial statements. The City of Tekoa uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

NOTE 2 - PROGRAM COSTS

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

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.

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