



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

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

### **City of Sprague**

**Lincoln County**

**For the period January 1, 2012 through December 31, 2013**

**Published September 29, 2014**

**Report No. 1012711**





**Washington State Auditor**  
**Troy Kelley**

September 29, 2014

Mayor and City Council  
City of Sprague  
Sprague, Washington

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

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR

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Lincoln County  
January 1, 2012 through December 31, 2013**

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# Federal Summary

**City of Sprague  
Lincoln County  
January 1, 2013 through December 31, 2013**

The results of our audit of the City of Sprague 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 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 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>
97.052	Emergency Operations Center

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.

# Schedule of Federal Audit Findings and Questioned Costs

**City of Sprague  
Lincoln County  
January 1, 2013 through December 31, 2013**

**1. The City did not have adequate internal controls to comply with federal grant requirements for its Emergency Operations Center grant.**

<b>CFDA Number and Title:</b>	97.052 Emergency Operations Center
<b>Federal Grantor Name:</b>	U.S. Department of Homeland Security
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Military Department
<b>Pass-through Award/Contract Number:</b>	E12-293
<b>Questioned Cost Amount:</b>	\$0

## **Description of Condition**

During 2013, the City spent \$612,128 in federal Emergency Operations Center grant funds. The City passed this funding through to a subrecipient for the construction of an emergency operations center to improve emergency management and preparedness capabilities.

Recipients of federal grants are required to establish internal controls to ensure subrecipients are informed of pertinent grant regulations and restrictions and are required to monitor subrecipients to ensure that grant funds are used in accordance with federal laws and regulations. A pass-through entity is responsible for ensuring subrecipients expending \$500,000 or more in Federal awards during a fiscal year have received an audit in accordance with OMB Circular A-133. Federal awards that are passed through to subrecipients as non-cash assistance shall be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency and reported on the subrecipient's Schedule of Expenditures of Federal Awards (SEFA).

The City's established control process does not ensure subrecipients report all federal financial assistance, including non-cash assistance, on the SEFA, or that A-133 audits are performed when required. The City entered into an interlocal agreement with its subrecipient, which included terms to obtain an annual A-133 audit when required. We found the City received and spent all grant funds on behalf of the subrecipient, however, the subrecipient became the owner of the emergency operations center upon completion. The City did not make sure that the subrecipient reported the center as non-cash assistance on its SEFA. The value of non-cash assistance provided to the subrecipient was \$1,000,000 and should have been reported on the subrecipient's SEFA for fiscal year 2013 when the emergency operations center was completed.

## **Cause of Condition**

The City was not aware that federal regulations require non-cash assistance to be reported on the SEFA of its subrecipient and did not ensure the subrecipient obtained an A-133 audit as required. We consider this control deficiency a material weakness in internal controls.

## **Effect of Condition and Questioned Costs**

Without proper subrecipient monitoring internal controls, the City cannot ensure subrecipients are receiving an A-133 audit when required.

## **Recommendation**

We recommend the City establish and follow internal controls to ensure it complies with all federal grant requirements related to subrecipient monitoring.

## **City's Response**

*If such an interlocal agreement occurs in the future, the City will verify that the subrecipient reports any non-cash award on its SEFA.*

## **Auditor's Remarks**

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

## **Applicable Laws and Regulations**

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart B, Section 205, states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.

(g) Valuing non-cash assistance. Federal non-cash assistance, such as free rent, food stamps, food commodities, donated property, or donated surplus property, shall be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart C, Section 300, states in part:

The auditee shall . . .

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

The U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D, Section 400, states in part:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E, Section 500, states in part:

(a) General. The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Material weakness.** A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Significant deficiency.** 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.

# **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 Sprague  
Lincoln County  
January 1, 2012 through December 31, 2013**

Mayor and City Council  
City of Sprague  
Sprague, 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 Sprague, Lincoln County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 16, 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 audits 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.

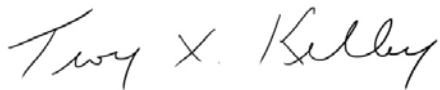
## ***COMPLIANCE AND OTHER MATTERS***

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 16, 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 Sprague  
Lincoln County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Sprague  
Sprague, Washington

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

We have audited the compliance of the City of Sprague, Lincoln 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.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. Our opinion on each major federal program is not modified with respect to these matters.

### ***City's Response to Findings***

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## ***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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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

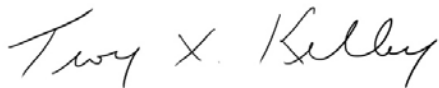
combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

### ***City's Response to Findings***

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***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.



**TROY KELLEY**  
STATE AUDITOR

September 16, 2014

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

**City of Sprague  
Lincoln County  
January 1, 2012 through December 31, 2013**

Mayor and City Council  
City of Sprague  
Sprague, Washington

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

We have audited the accompanying financial statements of the City of Sprague, Lincoln County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 18.

### ***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 audits. We conducted our audits 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 Sprague 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 Sprague, for the years ended December 31, 2013 and 2012, 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 Sprague, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

### ***Other Matters***

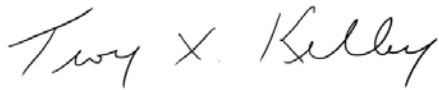
#### ***Supplementary and Other Information***

Our audits were 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 Schedules of Liabilities are 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 16, 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 16, 2014

## **Financial Section**

**City of Sprague  
Lincoln County  
January 1, 2012 through December 31, 2013**

### ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2013  
Fund Resources and Uses Arising from Cash Transactions – 2012  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2012  
Notes to the Financial Statements – 2013  
Notes to the Financial Statements – 2012

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Liabilities – 2013  
Schedule of Liabilities – 2012  
Schedule of Expenditures of Federal Awards – 2013  
Notes to the Schedule of Expenditures of Federal Awards – 2013

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current Expense Fund	100 Library Fund	101 Street Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	184,625	0	0	0
30880	Beg Fund Bal-Unreserved	284,581	18,679	2,108	52,209
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	177,317	142,786	8,585	14,717
320	Licenses & Permits	5,839	5,839	0	0
330	Intergovernmental Revenues	1,082,848	6,462	0	461,538
340	Charges for Goods and Services	292,595	1,162	121	0
350	Fines & Penalties	159	159	0	0
360	Miscellaneous Revenues	2,761	1,067	437	49
Total Operating Revenues:		1,561,519	157,475	9,143	476,304
Operating Expenditures					
510	General Government	77,387	77,387	0	0
520	Public Safety	42,782	42,782	0	0
530	Utilities	197,710	0	0	0
540	Transportation	58,431	0	0	58,431
550	Natural and Economic Environment	4,481	3,550	0	0
560	Social Services	2,970	86	0	0
570	Culture And Recreation	31,228	15,998	9,899	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		414,989	139,803	9,899	58,431
Net Operating Increase (Decrease):		1,146,530	17,672	-756	417,873
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	211	211	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		211	211		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	200	200	0	0
591-593	Debt Service	70,668	0	0	0
594-595	Capital Expenditures	1,094,797	0	269	451,753
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		1,165,665	200	269	451,753
Increase (Decrease) in Cash and Investments		-18,924	17,683	-1,025	-33,880
Ending Cash and Investments					
50810	End Fund Bal-Reserved	176,590	0	0	0
50880	End Fund Balance-Unreserved	273,692	36,362	1,083	18,329

The accompanying notes are an integral part of this Statement.

BARS Code		109 Hotel/Motel Tax	110 USDA Summer Food Program Fund	112 Emergency Medical Services	300 Capital Improvement Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	11,095	0	56,341	41,800
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,744	0	7,267	992
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	2,720	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	521	82	50
Total Operating Revenues:		1,744	3,241	7,349	1,042
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	931	0	0	0
560	Social Services	0	2,884	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		931	2,884		
Net Operating Increase (Decrease):		813	357	7,349	1,042
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	0	17,597
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:					17,597
Increase (Decrease) in Cash and Investments		813	357	7,349	-16,555
Ending Cash and Investments					
50810	End Fund Bal-Reserved	11,908	357	63,691	25,245
50880	End Fund Balance-Unreserved	0	0	-1	0

The accompanying notes are an integral part of this Statement.

BARS Code		301 Railroad Depot Fund	302 FEMA EOC Grant	337 EDC Grant	400 Sewer Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	4,739	70,650
30880	Beg Fund Bal-Unreserved	6,140	0	0	41,500
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,226	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	612,128	0	0
340	Charges for Goods and Services	0	0	0	111,689
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	8	0	0	294
Total Operating Revenues:		1,234	612,128		111,983
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	47,096
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	5,331	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		5,331			47,096
Net Operating Increase (Decrease):		-4,097	612,128	0	64,887
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	70,668
594-595	Capital Expenditures	0	612,128	0	4,312
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:			612,128		74,980
Increase (Decrease) in Cash and Investments		-4,097	0	0	-10,093
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	4,739	70,650
50880	End Fund Balance-Unreserved	2,043	0	0	31,407

The accompanying notes are an integral part of this Statement.

BARS Code		401 Water Fund	405 Garbage
<b>Beginning Cash and Investments</b>			
30810	Beg Fund Bal-Reserved	0	0
30880	Beg Fund Bal-Unreserved	151,893	12,052
38800/58800	Prior Period Adjustments, net	0	0
<b>Operating Revenues</b>			
310	Taxes	0	0
320	Licenses & Permits	0	0
330	Intergovernmental Revenues	0	0
340	Charges for Goods and Services	118,532	61,091
350	Fines & Penalties	0	0
360	Miscellaneous Revenues	230	23
<b>Total Operating Revenues:</b>		<b>118,762</b>	<b>61,114</b>
<b>Operating Expenditures</b>			
510	General Government	0	0
520	Public Safety	0	0
530	Utilities	93,606	57,008
540	Transportation	0	0
550	Natural and Economic Environment	0	0
560	Social Services	0	0
570	Culture And Recreation	0	0
598	Intergovernmental Payments	0	0
<b>Total Operating Expenditures:</b>		<b>93,606</b>	<b>57,008</b>
<b>Net Operating Increase (Decrease):</b>		<b>25,156</b>	<b>4,106</b>
<b>Nonoperating Revenues</b>			
370, 380, 395, 398	Other Financing Sources	0	0
391-393	Debt Proceeds	0	0
397	Transfers-In	0	0
<b>Total Nonoperating Revenues:</b>			
<b>Nonoperating Expenditures</b>			
580, 596, 599	Other Financing Uses	0	0
591-593	Debt Service	0	0
594-595	Capital Expenditures	8,738	0
597	Transfers-Out	0	0
<b>Total Nonoperating Expenditures:</b>		<b>8,738</b>	
<b>Increase (Decrease) in Cash and Investments</b>		<b>16,418</b>	<b>4,106</b>
<b>Ending Cash and Investments</b>			
50810	End Fund Bal-Reserved	0	0
50880	End Fund Balance-Unreserved	168,311	16,158

The accompanying notes are an integral part of this Statement.

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 Current Expense Fund	100 Library Fund	101 Street Fund
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	175,033	0	0	0
30880	Beg Fund Bal-Unreserved	299,119	13,333	1,884	64,598
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	154,379	119,668	8,650	14,828
320	Licenses & Permits	4,791	4,791	0	0
330	Intergovernmental Revenues	593,526	8,197	0	195,040
340	Charges for Goods and Services	296,769	6,279	0	0
350	Fines & Penalties	117	117	0	0
360	Miscellaneous Revenues	3,899	1,531	388	247
<b>Total Operating Revenues:</b>		<b>1,053,481</b>	<b>140,583</b>	<b>9,038</b>	<b>210,115</b>
<b>Operating Expenditures</b>					
510	General Government	76,061	69,843	0	0
520	Public Safety	41,827	41,827	0	0
530	Utilities And Environment	206,614	3,131	0	0
540	Transportation	88,593	0	0	88,593
550	Economic Environment	6,962	6,395	0	0
560	Mental & Physical Health	122	122	0	0
570	Culture And Recreation	20,313	11,162	8,513	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>440,492</b>	<b>132,480</b>	<b>8,513</b>	<b>88,593</b>
<b>Net Operating Increase (Decrease):</b>		<b>612,989</b>	<b>8,103</b>	<b>525</b>	<b>121,522</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	270	270	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	2,760	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>3,030</b>	<b>270</b>		
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	268	268	0	0
591-593	Debt Service	70,668	0	0	0
594-595	Capital Expenditures	547,274	0	300	133,911
597	Transfers-Out	2,760	2,760	0	0
<b>Total Nonoperating Expenditures:</b>		<b>620,970</b>	<b>3,028</b>	<b>300</b>	<b>133,911</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>-4,951</b>	<b>5,345</b>	<b>225</b>	<b>-12,389</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	184,625	0	0	0
50880	End Fund Balance-Unreserved	284,577	18,678	2,109	52,209

The accompanying notes are an integral part of this Statement.

BARS Code		109 Hotel/Motel Tax	110 USDA Summer Food Program Fund	112 Emergency Medical Services	300 Capital Improvement Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	10,174	0	48,931	40,539
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,487	0	7,320	1,190
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	2,417	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	1,040	89	71
Total Operating Revenues:		1,487	3,457	7,409	1,261
Operating Expenditures					
510	General Government	0	6,218	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	567	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		567	6,218		
Net Operating Increase (Decrease):		920	-2,761	7,409	1,261
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	2,760	0	0
Total Nonoperating Revenues:			2,760		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:					
Increase (Decrease) in Cash and Investments		920	-1	7,409	1,261
Ending Cash and Investments					
50810	End Fund Bal-Reserved	11,095	0	56,341	41,800
50880	End Fund Balance-Unreserved	0	-1	-1	0

The accompanying notes are an integral part of this Statement.

BARS Code		301 Railroad Depot Fund	302 FEMA EOC Grant	337 EDC Grant	400 Sewer Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	4,739	70,650
30880	Beg Fund Bal-Unreserved	5,532	0	0	63,020
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,236	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	387,872	0	0
340	Charges for Goods and Services	0	0	0	108,056
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	10	0	0	242
Total Operating Revenues:		1,246	387,872		108,298
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	57,159
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	638	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		638			57,159
Net Operating Increase (Decrease):		608	387,872	0	51,139
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	70,668
594-595	Capital Expenditures	0	387,872	0	1,991
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:			387,872		72,659
Increase (Decrease) in Cash and Investments		608	0	0	-21,520
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	4,739	70,650
50880	End Fund Balance-Unreserved	6,140	0	0	41,500

The accompanying notes are an integral part of this Statement.

BARS Code		401 Water Fund	405 Garbage
Beginning Cash and Investments			
30810	Beg Fund Bal-Reserved	0	0
30880	Beg Fund Bal-Unreserved	136,559	14,193
38800/58800	Prior Period Adjustments, net	0	0
Operating Revenues			
310	Taxes	0	0
320	Licenses & Permits	0	0
330	Intergovernmental Revenues	0	0
340	Charges for Goods and Services	120,090	62,344
350	Fines & Penalties	0	0
360	Miscellaneous Revenues	248	33
Total Operating Revenues:		120,338	62,377
Operating Expenditures			
510	General Government	0	0
520	Public Safety	0	0
530	Utilities And Environment	81,806	64,518
540	Transportation	0	0
550	Economic Environment	0	0
560	Mental & Physical Health	0	0
570	Culture And Recreation	0	0
598	Intergovernmental Payments	0	0
Total Operating Expenditures:		81,806	64,518
Net Operating Increase (Decrease):		38,532	-2,141
Nonoperating Revenues			
370, 380, 395, 398	Other Financing Sources	0	0
391-393	Debt Proceeds	0	0
397	Transfers-In	0	0
Total Nonoperating Revenues:			
Nonoperating Expenditures			
580, 596, 599	Other Financing Uses	0	0
591-593	Debt Service	0	0
594-595	Capital Expenditures	23,200	0
597	Transfers-Out	0	0
Total Nonoperating Expenditures:		23,200	
Increase (Decrease) in Cash and Investments		15,332	-2,141
Ending Cash and Investments			
50810	End Fund Bal-Reserved	0	0
50880	End Fund Balance-Unreserved	151,891	12,052

The accompanying notes are an integral part of this Statement.

## FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	610 Utility Deposit Fund	640 Project Outreach Fund	650 Ambulance Fund
308	Beginning Cash and Investments	40,978	15,699	1,296	23,983
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	2,186	0	2,100	86
380-390	Other Increases and Financing Sources	2,940	2,940	0	0
510-570	Expenditures	0	0	0	0
580-590	Other Decreases and Financing Uses	4,645	2,074	2,571	0
Increase (Decrease) in Cash and Investments		481	866	-471	86
508	Ending Cash and Investments	41,459	16,565	825	24,069

The accompanying notes are an integral part of this Statement.

## FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds	610 Utility Deposit Fund	640 Project Outreach Fund	650 Ambulance Fund
308	Beginning Cash and Investments	39,058	15,161	342	23,555
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	3,087	0	2,659	428
370-390	Other Increases and Financing Sources	3,758	3,758	0	0
510-570	Expenditures	0	0	0	0
580-590	Other Decreases and Financing Uses	4,925	3,220	1,705	0
Increase (Decrease) in Cash and Investments		1,920	538	954	428
508	Ending Cash and Investments	40,978	15,699	1,296	23,983

The accompanying notes are an integral part of this Statement.

**City of Sprague**  
**Notes to the Financial Statements**  
**January 1, 2013 through December 31, 2013**

**Note 1 - Summary of Significant Accounting Policies**

The City of Sprague 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 Sprague was incorporated on November 28, 1883 and operates under the laws of the state of Washington applicable to a code city. The City of Sprague is a general purpose government and provides street maintenance, parks, a library, and general administrative services. In addition, the City of Sprague owns and operates water and sewer systems. The City of Sprague contracts for law enforcement with the Lincoln County Sheriff's Department, fire protection and emergency medical services with Lincoln County Fire District #1, and solid waste disposal with Wheatland Waste Systems, Inc. The City of Sprague 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 Sprague 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 Sprague's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Sprague:

**GOVERNMENTAL FUND TYPES:**

**General (Current Expense) Fund**

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

**Special Revenue Funds**

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

**Capital Projects Funds**

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

## PROPRIETARY FUND TYPES:

### Enterprise Funds

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

## FIDUCIARY FUND TYPES:

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

### Agency Funds

These funds are used to account assets that City of Sprague 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's budget appropriations as required by state law.

In accordance with state law the City of Sprague 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 Sprague adopts annual appropriated budgets for general, special revenue, capital project 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 - Current Expense Fund	145,582.00	140,003.50	5,578.50
100 - Library Fund	10,900.00	10,167.49	732.51
101 - Street Fund	611,320.00	510,182.45	101,137.55
109 - Hotel/Motel Tax	1,000.00	930.93	69.07
110 - USDA Summer Food Program	3,500.00	2,883.89	616.11
112 - Emergency Medical Services	0	0	0
300 - Capital Improvement Fund	20,000.00	17,596.92	2,403.08
301 - Railroad Depot Fund	6,400.00	5,331.94	1,068.06
302 - FEMA EOC Grant	620,000.00	612,128.03	7,871.97
337 - EDC Grant	4,740.00	0	4,740.00
400 - Sewer Fund			
Sewer Fund	128,100.00	122,075.86	6,024.14
Sewer Bond Reserve Cash	12,000.00	12,000.00	0
Total 400 - Sewer Fund	140,100.00	134,075.86	6,024.14
401 - Water Fund			
Water Fund	136,500.00	112,342.61	24,157.39
Water Capital Investment	0	0	0
Total 401 - Water Fund	136,500.00	112,342.61	24,157.39
405 - Garbage	63,700.00	57,008.19	6,691.81
610 - Utility Deposit Fund	15,000.00	2,074.13	12,925.87
640 - Project Outreach Fund	2,500.00	2,570.56	-70.56
650 - Ambulance Fund	0	0	0

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

The large variance in the Street Fund was due to delays in progress on two street reconstruction projects funded by grants. Fourth Street Reconstruction was complete but not released for final payment. First Street Reconstruction – Phase 3 design engineering was delayed to put all the necessary funding agreements in place. The variance in the Water Fund was mostly due to not as many water meters being replaced as anticipated. The Project Outreach Fund is an agency fund where donations are distributed to help local residents with utility bills. The disbursement of Project Outreach funds is determined by a three member committee of community citizens and is approximately equal to the donations received.

#### D. Cash

It is the City of Sprague'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 Sprague's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments See Note 2, *Investments*.

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. The capital assets of the City of Sprague are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 20 days within each calendar year and is payable upon separation or retirement. Vacation leave is not accumulative and must be taken in the calendar year earned or it is lost. Therefore, there is no liability as of yearend to report on the Schedule of Liabilities.

Sick leave may be accumulated up to 240 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Therefore, there is no liability as of yearend to report on the Schedule of Liabilities.

I. Long-Term Debt See Note 4, *Debt Service Requirements*.

J. Other Financing Sources or Uses

The City of Sprague's *Other Financing Sources or Uses* consist of transfers-in and transfers-out between funds.

K. Risk Management

The City of Sprague 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 pool 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, that 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 portion of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,247,000 to cap the total claims paid by the program in any one year.

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

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

Members contract to remain in the pool 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 the program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2013, were \$1,423,059.12.

#### **L. Reserved Fund Balance**

Fund 109 Hotel/Motel Taxes: Use of hotel/motel taxes are restricted by RCW 67.28.1815.

Fund 112 Emergency Medical Services: EMS property taxes are voter approved for emergency medical services use.

Fund 300 Capital Improvement Fund: RCW 82.46.010 restricts the use of the first quarter percent of real estate excise taxes to capital projects.

Fund 337 EDC Grant: Lincoln County Economic Development Council provided a grant for a study on getting city utilities to the north side of Interstate 90 at Sprague.

Fund 400 Sewer Fund: City of Sprague Ordinance No. 695 authorizing the issuance of sewer revenue bonds has a reserve account requirement totaling \$70,650.

## **Note 2 - Investments**

The City of Sprague's investments are either insured, registered or held by the City of Sprague or its agent in the City of Sprague's name.

Investments are presented at cost.

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

<u>Type of Investment</u>	① City of Sprague's own investments	② Investments held by City of Sprague as an agent for other local governments, individuals or private organizations.	③ Total
L.G.I.P.	\$ <u>423,561.62</u>	\$ _____	\$ <u>423,561.62</u>
Certificate of Deposit	_____	\$ <u>23,993.28</u>	\$ <u>23,993.28</u>
Total	\$ <u>423,561.62</u>	\$ <u>23,993.28</u>	\$ <u>447,554.90</u>

### **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 by City of Sprague. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Sprague's regular levy for the year 2013 was \$3.36186 per \$1,000 on an assessed valuation of \$14,781,402 for a total regular levy of \$49,693.

In 2013, the City of Sprague also levied \$0.49806 per \$1,000 for Emergency Medical Services for a total additional levy of \$7,362.

### **Note 4 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Sprague and summarizes the City of Sprague's debt transactions for year ended December 31, 2013.

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

	<u>Revenue Bonds</u>
2014	\$70,668
2015	70,668
2016	70,668
2017	70,668
2018	70,668
2019 – 2023	353,340
2024 – 2028	353,340
2029 – 2033	353,340
2034	<u>10,033</u>
TOTALS	\$ <u>1,423,393</u>

### **Note 5 - Pension Plans**

Substantially all City of Sprague's full-time and qualifying part-time employees participate in PERS 2 and PERS 3 plans 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 Sprague's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

**City of Sprague**  
**Notes to the Financial Statements**  
**January 1, 2012 through December 31, 2012**

**Note 1 - Summary of Significant Accounting Policies**

The City of Sprague 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 Sprague was incorporated on November 28, 1883 and operates under the laws of the state of Washington applicable to a code city. The City of Sprague is a general purpose government and provides street maintenance, parks, a library, and general administrative services. In addition, the City of Sprague owns and operates water and sewer systems. The City of Sprague contracts for law enforcement with the Lincoln County Sheriff's Department, fire protection and emergency medical services with Lincoln County Fire District #1, and solid waste disposal with Wheatland Waste Systems, Inc. The City of Sprague 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 Sprague 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 Sprague's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Sprague:

**GOVERNMENTAL FUND TYPES:**

**General (Current Expense) Fund**

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

**Special Revenue Funds**

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

**Capital Projects Funds**

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

## PROPRIETARY FUND TYPES:

### Enterprise Funds

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

## FIDUCIARY FUND TYPES:

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

### Agency Funds

These funds are used to account assets that City of Sprague 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 Sprague 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 Sprague adopts annual appropriated budgets for general, special revenue, capital project, 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 follow:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - Current Expense Fund	\$ 141,227.00	\$ 135,507.41	\$ 5,719.59
100 - Library Fund	\$ 10,350.00	\$ 8,813.56	\$ 1,536.44
101 - Street Fund	\$ 247,400.00	\$ 222,504.22	\$ 24,895.78
109 - Hotel/Motel Tax	\$ 8,950.00	\$ 567.00	\$ 8,383.00
110 - USDA Summer Food Program	\$ 6,245.00	\$ 6,216.93	\$ 28.07
112 - Emergency Medical Services	\$ -	\$ -	\$ -
300 - Capital Improvement Fund	\$ 10,000.00	\$ -	\$ 10,000.00
301 - Railroad Depot Fund	\$ 2,000.00	\$ 637.83	\$ 1,362.17
302 - FEMA EOC Grant	\$ 1,000,000.00	\$ 387,871.97	\$ 612,128.03
337 - EDC Grant	\$ 4,750.00	\$ -	\$ 4,750.00
400 - Sewer Fund			
Sewer Fund	\$ 133,000.00	\$ 129,818.17	\$ 3,181.83
Sewer Bond Reserve Cash	\$ 18,000.00	\$ 18,000.00	\$ -
Total 400 - Sewer Fund	\$ 151,000.00	\$ 147,818.17	\$ 3,181.83
401 - Water Fund			
Water Fund	\$ 136,100.00	\$ 115,003.32	\$ 21,096.68
Water Capital Investment	\$ -	\$ -	\$ -
Total 401 - Water Fund	\$ 136,100.00	\$ 115,003.32	\$ 21,096.68
405 - Garbage	\$ 64,700.00	\$ 64,517.36	\$ 182.64
610 - Utility Deposit Fund	\$ 15,000.00	\$ 3,220.00	\$ 11,780.00
640 - Project Outreach Fund	\$ 2,000.00	\$ 1,704.58	\$ 295.42
650 - Ambulance Fund	\$ -	\$ -	\$ -

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

D. Cash

It is the City of Sprague'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 Sprague's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments See Note 2, *Investments*.

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000.00 and an estimated useful life in excess of 3 years. The capital assets of the City of Sprague are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 20 days within each calendar year and is payable upon separation or retirement. Vacation leave is not accumulative and must be taken in the calendar year earned or it is lost. Therefore, there is no liability as of yearend to report on the Schedule of Liabilities.

Sick leave may be accumulated up to 240 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Therefore, there is no liability as of yearend to report on the Schedule of Liabilities.

I. Long-Term Debt See Note 4, *Debt Service Requirements*.

J. Other Financing Sources or Uses

The City of Sprague's *Other Financing Sources or Uses* consist of transfers-in and transfers-out between funds.

K. Risk Management

The City of Sprague 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 pool 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, 2012, there are 2404 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, that 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 portion of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$2,815,000 to cap the total claims paid by the program in any one year.

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

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500. 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 pool 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 the program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2012 were \$1,099,472.

L. Reserved Fund Balance

Fund 109 Hotel/Motel Taxes: Use of hotel/motel taxes are restricted by RCW 67.28.1815.

Fund 112 Emergency Medical Services: EMS property taxes are voter approved for emergency medical services use.

Fund 300 Capital Improvement Fund: RCW 82.46.010 restricts the use of the first quarter percent of real estate excise taxes to capital projects.

Fund 337 EDC Grant: Lincoln County Economic Development Council provided a grant for a study on getting city utilities to the north side of Interstate 90 at Sprague.

Fund 400 Sewer Fund: City of Sprague Ordinance No. 695 authorizing the issuance of sewer revenue bonds has a reserve account requirement totaling \$70,650.

**Note 2 - Investments**

The City of Sprague's investments are insured, registered or held by the City of Sprague or its agent in the City of Sprague's name.

Investments are presented at cost.

Investments by type at December 31, 2012 are as follows:

<u>Type of Investment</u>	① City of Sprague's own investments	② Investments held by City of Sprague as an agent for other local governments, individuals or private organizations.	③ Total
L.G.I.P. Certificate of Deposit	\$ <u>422,897.23</u>	\$ <u>23,957.32</u>	\$ <u>422,897.23</u> <u>23,957.32</u>
Total	\$ <u>422,897.23</u>	\$ <u>23,957.32</u>	\$ <u>446,854.55</u>

### **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 by City of Sprague. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Sprague's regular levy for the year 2012 was \$3.375 per \$1,000 on an assessed valuation of \$14,544,963 for a total regular levy of \$49,201.

In 2012, the City of Sprague also levied \$0.5000 per \$1,000 for Emergency Medical Services for a total additional levy of \$7,289.

### **Note 4 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Sprague and summarizes the City of Sprague's debt transactions for year ended December 31, 2012.

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

	<u>Revenue Bonds</u>
2013	\$ 70,668
2014	70,668
2015	70,668
2016	70,668
2017	70,668
2018 – 2022	353,340
2023 – 2027	353,340
2028 – 2032	353,340
2033 – 2034	<u>80,721</u>
TOTALS	\$ <u>1,494,081</u>

### **Note 5 - Pension Plans**

Substantially all City of Sprague's full-time and qualifying part-time employees participate in PERS 2 and PERS 3 plans 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 Sprague's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
Revenue Obligations							
	252.11	Sewer Bonds	4/15/2034	965,884	0	27,773	938,111
Total Revenue Obligations:				965,884	0	27,773	938,111
Total Liabilities:				965,884	0	27,773	938,111

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
Revenue Obligations							
	252.11	Sewer Bonds	4/15/2034	992,438	0	26,553	965,885
Total Revenue Obligations:				992,438	0	26,553	965,885
Total Liabilities:				992,438	0	26,553	965,885

MCAG NO. 0516

City of Sprague

Schedule 16

## 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	
Food And Nutrition Service, Department Of Agriculture/WA Supt. of Public Instruction	Summer Food Service Program for Children	10.559	S13-221147	2,720		2,720	1, 2
Department Of Homeland Security/WA State Military Dept.	Emergency Operations Center	97.052	E12-293	612,128		612,128	1
<b>Total Federal Awards Expended:</b>				<b>614,848</b>	<b>0</b>	<b>614,848</b>	

**City of Sprague**

**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 Sprague's financial statements. The City of Sprague 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 Sprague's portion, are more than shown.

# **Corrective Action Plan for Findings Reported Under OMB Circular A-133**

**City of Sprague  
Lincoln County  
January 1, 2012 through December 31, 2013**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Sprague.

<b>Finding ref number:</b> 1	<b>Finding caption:</b> The City did not have adequate internal controls to comply with federal grant requirements for its Emergency Operations Center grant.
<b>Name, address, and telephone of auditee contact person:</b> Ginny Rajala, Clerk-Treasurer P.O. Box 264 Sprague, WA 99032 (509) 257-2662	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The subrecipient has already submitted a corrected SEFA that included the \$1,000,000 Emergency Operations Center as a non-cash federal award. In the future if such an interlocal agreement is made, the City will ensure that the subrecipient reports any non-cash award on its SEFA.</i>	
<b>Anticipated date to complete the corrective action:</b> 9/18/2014	

## 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
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