



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Tonasket

Okanogan County

For the period January 1, 2014 through December 31, 2014

Published July 25, 2016

Report No. 1017063





Washington State Auditor's Office

July 25, 2016

Mayor and City Council
City of Tonasket
Tonasket, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**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 Tonasket
Okanogan County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Tonasket
Tonasket, 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 Tonasket, Okanogan County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated June 27, 2016.

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 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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated July 11, 2016.

COMPLIANCE AND OTHER MATTERS

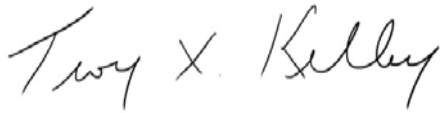
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 27, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Tonasket Okanogan County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Tonasket
Tonasket, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Tonasket, Okanogan County, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

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 Tonasket has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by 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 Tonasket, for the year ended December 31, 2014, 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 Tonasket, as of December 31, 2014, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

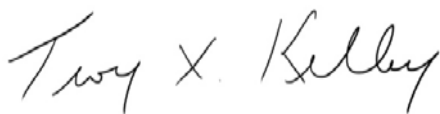
Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016 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
OLYMPIA, WA

June 27, 2016

FINANCIAL SECTION

**City of Tonasket
Okanogan County
January 1, 2014 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014

City of Tonasket
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 Current Expense Fund	101 City Street Fund
Beginning Cash and Investments				
30810	Reserved	187,653	63,835	-
30880	Unreserved	816,226	112,189	7,927
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	628,810	557,315	53,835
320	Licenses and Permits	5,988	5,988	-
330	Intergovernmental Revenues	166,570	64,722	93,041
340	Charges for Goods and Services	666,212	10,115	-
350	Fines and Penalties	14,556	8,112	-
360	Miscellaneous Revenues	39,671	25,222	206
Total Operating Revenues:		1,521,807	671,474	147,082
Operating Expenditures				
510	General Government	83,173	83,173	-
520	Public Safety	482,680	482,680	-
530	Utilities	523,067	14,289	-
540	Transportation	73,262	5,258	68,004
550	Natural and Economic Environment	26,643	5,823	-
560	Social Services	743	743	-
570	Culture and Recreation	31,514	29,896	-
Total Operating Expenditures:		1,221,082	621,862	68,004
Net Operating Increase (Decrease):		300,725	49,612	79,078
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	34,670	34,670	-
391-393	Debt Proceeds	2,258,939	12,700	-
397	Transfers-In	53,620	-	-
Total Nonoperating Revenues:		2,347,229	47,370	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	9,143	9,143	-
591-593	Debt Service	2,237,304	1,652	-
594-595	Capital Expenditures	325,443	37,524	67,562
597	Transfers-Out	53,620	53,620	-
Total Nonoperating Expenditures:		2,625,510	101,938	67,562
Net Increase (Decrease) in Cash and Investments:		22,444	(4,957)	11,516
Ending Cash and Investments				
5081000	Reserved	264,696	63,985	-
5088000	Unreserved	761,627	107,083	19,443
Total Ending Cash and Investments		1,026,323	171,067	19,443

The accompanying notes are an integral part of this statement.

106 Gerhard Operating Fund	108 Stadium Tax Fund	301 City Hall/City Park Fund	304 Cumulative Building Fund	305 CIP (Capital Improvement) Fund	311 Swim Pool Reserve Fund
-	11,351	-	-	-	-
8,184	-	9,145	6,749	14,259	15,452
-	-	-	-	-	-
-	7,662	-	-	9,998	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
9	6	18	6	12	12
9	7,668	18	6	10,010	12
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	9,963	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,618
-	9,963	-	-	-	1,618
9	(2,295)	18	6	10,010	(1,606)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,000	-	-	2,000
-	-	1,000	-	-	2,000
-	-	-	-	-	-
-	-	-	-	-	-
-	1,275	-	-	-	-
-	-	-	-	-	-
-	1,275	-	-	-	-
9	(3,570)	1,018	6	10,010	394
-	7,781	-	-	-	-
8,194	-	10,163	6,755	24,269	15,846
8,194	7,781	10,163	6,755	24,269	15,846

The accompanying notes are an integral part of this statement.

401 Water Fund	420 Sewer Fund	700 Gerhard Trust Fund
26,285	82,682	3,500
186,553	455,768	-
-	-	-
-	-	-
-	-	-
2,400	6,407	-
330,915	325,182	-
2,910	3,533	-
13,016	1,163	-
<u>349,241</u>	<u>336,285</u>	<u>-</u>
-	-	-
-	-	-
259,256	249,522	-
-	-	-
5,428	5,428	-
-	-	-
-	-	-
<u>264,684</u>	<u>254,951</u>	<u>-</u>
<u>84,557</u>	<u>81,335</u>	<u>-</u>
-	-	-
2,190,521	55,718	-
-	50,620	-
<u>2,190,521</u>	<u>106,338</u>	<u>-</u>
-	-	-
2,135,092	100,560	-
121,337	97,746	-
-	-	-
<u>2,256,429</u>	<u>198,306</u>	<u>-</u>
18,649	(10,633)	-
98,074	91,357	3,500
133,414	436,460	-
<u>231,488</u>	<u>527,817</u>	<u>3,500</u>

The accompanying notes are an integral part of this statement.

City of Tonasket
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	601 Municipal Court Fund
308	Beginning Cash and Investments	949	949
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	17,405	17,405
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	16,948	16,948
	Net Increase (Decrease) in Cash and Investments:	456	456
508	Ending Cash and Investments	1,405	1,405

The accompanying notes are an integral part of this statement.

CITY OF TONASKET
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tonasket was incorporated on December 6, 1927 and operates under the laws of the State of Washington applicable to a non-charter code city. The City is a general purpose government and provides public safety, fire protection, street maintenance, parks, health services and general administration and owns and operates a water system and sewer system.

The City of Tonasket reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual as prescribed by the State Auditor's Office under the authority of Washington State Law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending Balances are not presented using classifications defined in GAAP.

a. **Fund Accounting**

The accounts of the City 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'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:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Special Revenue Funds

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

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

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.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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:

Agency Fund

These funds are used to account for assets that the government holds on behalf of others in custodial 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 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 adopts annual appropriated budgets for all 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 Expenditures	Variance
Current Expense	735,294.71	709,473.97	25,820.74
City Street	200,200.00	136,566.00	63,634.00
Cemetery Operating	18,770.00	13,626.54	5,143.46
Cemetery Trust	64,334.00	0	64,334.00
Cemetery Improvement	4,407.00	762.50	3,644.50
Gerhard Operating	8,120.00	0	8,120.00
Stadium Tax	16,607.00	11,237.91	5,369.09
Pool Reserve Fund	17,472.00	1,618.21	15,853.79
City Hall/City Park Reserve	9,151.67	0	9,151.67
Cumulative Police	45,651.22	936.55	44,714.67
Cumulative Building	6,753.33	0	6,753.33
Capital Improvement	16,596.24	0	16,596.24
City Street Reserve	2,406.25	0	2,406.25
Water Reserve	77,987.75	15,990.00	61,997.75
Sewer Reserve	353,897.51	25,534.03	328,363.48
Water Fund	417,110.00	388,983.82	28,126.18
Sewer Fund	484,643.49	376,443.60	108,199.89
Water Bond Redemption	83,627.02	33,551.54	50,075.48
Water Bond Reserve	33,637.66	0	33,637.66
Sewer Bond Redemption	130,196.12	100,560.20	29,635.92
Sewer Bond Reserve	67,621.01	0	67,621.01
Water Project	338,775.94	2,183,140.35	**(1,844,364.41)
Sewer Project	85,270.65	55,718.00	29,552.65
Total	\$3,218,530.57	\$4,054,143.22	\$835,612.65

**Please refer to Note #9 Other Disclosures

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City's legislative body.

d. Cash

It is the City'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 except the interest earned in the surplus fund is deposited in the Current Expense Fund.

e. Deposits

The City deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

f. Investments See NOTE 3.

g. Capital Assets

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

h. Compensated Absences

Employees are allowed to accumulate vacation hours to a maximum of 240 hours in a calendar year plus the monthly accruals. Only 240 hours may be carried over to a new calendar year. Employees who retire, resign or are laid off due to a reduction in force shall be paid all accrued and unused vacation time as part of their final paycheck.

Sick leave with pay shall accrue at the rate of one working day of leave for each month of continuous full time service. Any such leave accrued which is unused in any year shall be accumulated for succeeding years for all regular full time employees up to a maximum of 120 days. Employees who retire or leave employment from the City of Tonasket after working for at least 15 years and are not fired shall be paid $\frac{1}{4}$ of the unused sick leave accumulated at the time of separation.

i. Schedule of Liabilities See NOTE 6

j. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of operating transfers in and transfers out.

k. Risk Management

The City of Tonasket is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of December 1, 2014, there are 223 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. The standard member deductible is \$1000 for each claim, (deductible may vary per

member) while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy, **with an attachment point of \$3,259,396** 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, which may vary per member with the exception of **Pumps and Motors which is \$10,000**. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps and Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. **On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1, to December 1st beginning with the 2014-15 policy term.** An endorsement was added to the 2013-2014 Memorandum of Coverage, extending coverage to December 2014. The next full policy year will begin on December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending **December 1, 2014, were \$1,817,654.59.**

1. Reserve Fund Balances

The City has the following funds with reserve balances:

Fund 001 Current Expense Fund – The reserve balance in the Current Expense Fund is from the Cemetery Trust Fund. These funds are used strictly for Cemetery expenses.

Fund 108 Hotel/Motel Fund---The reserve balance in this fund is reserved for uses that can only be used for expenditures allowed by state law for these funds.

Fund 700 Gerhard Trust Fund---The Gerhard Trust Fund reserve balance is a principal held in reserve and the interest accrued is receipted into the Gerhard Operating.

Fund 401 Water Fund---The reserve balance in Water Fund is actually from Fund 411 Water Bond Redemption and Fund 412 Water Bond Reserve which are used for the redemption of debt.

Fund 420 Sewer Fund—The reserve balance in Sewer Fund is actually from Fund 422 Sewer Bond Redemption and Fund 423 Sewer Bond Reserve which are used for the redemption of debt.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

*There have been no expenditures exceeding legal appropriations in any of the funds of the City of Tonasket. Please refer to Note 9 Other Disclosures.

NOTE 3 - INVESTMENTS

The City's investments are either insured, registered or held by the City or its agent in the City's name. Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	City's own investments	Investments held by City as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ 571,201.92	\$ 0	\$ 571,201.92
U.S. Bank, Surplus Funds	4,563.36	0	4,563.36*
Pro Equities	<u>102,184.99</u>	<u>0</u>	<u>102,184.99</u>
Total	<u>\$ 677,950.27</u>	<u>\$ 0</u>	<u>\$ 677,950.27</u>

* This is the actual amount at the end of 2014 on the US Bank Statement

NOTE 4 - PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed the end of each month.

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

The City's regular levy for the year 2014 was \$2.735264 per \$1,000 on an assessed valuation of \$53,500,132.00 for a total regular levy of \$ 146,337.00.

NOTE 5 - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2014:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2014</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/14</u>
#1 101 City Street	421 Sewer Reserve	\$10,180.00	\$ 0	\$ 500.00	\$ 9,680.00
#2 101 City Street	421 Sewer Reserve	\$ 5,365.09	\$ 0	\$ 0	\$ 5,365.09
#2 103 Cemetery	421 Sewer Reserve	\$ 2,293.49	\$ 0	\$ 100.00	\$ 2,193.49
#2 001 Current Exp.	420 Sewer Fund	293.49	\$ 0	\$ 500.00	\$ -206.51
#3 001 Current Exp.	421 Sewer Reserve	\$50,000.00	\$ 0	\$ 50,019.63	\$ -0-
	TOTALS	<u>\$68,132.07</u>	<u>-0-</u>	<u>\$ 51,100.00</u>	<u>\$17,032.07</u>

The interest rate on the #1 interfund loan is .27 and is not included in the repayment amount. Repayment began in 2011. There is not any interest rate included in the #2 interfund loan. Repayment began in 2005. The interest rate on #3 is the LGIP rate at the time of payment.

NOTE 6 – SCHEDULE OF LIABILITIES

The accompanying Schedule of Liabilities provides a listing of the outstanding debt of the City of Tonasket and summarizes the City's debt transactions for 2014. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2014		134,115.74	1,652.00	135,767.74
2015		227,267.86	2,832.00	230,099.86
2016		227,267.86	2,832.00	230,099.86
2017		227,267.86	2,832.00	230,099.86
2018		227,267.86	2,832.00	230,099.86
2019-2023		1,057,634.25	1,180.00	1,058,814.85
2024-2028		861,498.51		861,498.51
2029-2033		743,811.45		743,811.45
2034-2038		457,150.00		457,150.00
2039-2043		457,150.00		457,150.00
2044-2048		457,150.00		457,150.00
2049-2053		457,150.00		457,150.00
2054		91,430.00		91,430.00
TOTALS		\$5,626,161.39	\$14,160.00	\$5,640,321.39

NOTE 7 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in the Public Employees Retirement System or Law Enforcement Officers and Firefighters administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the 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

NOTE 8 – HEALTH AND WELFARE

The City of Tonasket is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of

Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

NOTE 9 - OTHER DISCLOSURES

The City is responsible for one LEOFF I employee's health insurance and other applicable costs for the LEOFF I retirement system.

An adjustment was made to the Schedule 09 beginning balance on Water Revenue Bond CVB to agree with Cashmere Valley Bank.

**The payment to Cashmere Valley Bank in the amount of \$2,101,540.66 for Interim Financing was not included in the Budgeted amount for the Water Project.

For reporting purposes in 2014 the City merged the following funds into the Current Expense Fund 001:

- Fund 002 Cumulative Police Fund
- Fund 003 Cemetery Operating Fund
- Fund 004 Cemetery Trust Fund
- Fund 005 Cemetery Improvement Fund

For reporting purposes in 2014 the City merged the following funds into the City Street Fund:

- Fund 102 City Street Reserve Fund

For reporting purposes in 2014 the City merged the following funds into the Water Fund:

- Fund 410 Water Reserve Fund
- Fund 411 Water Bond Redemption Fund
- Fund 412 Water Bond Reserve Fund
- Fund 413 Water Project Fund

For reporting purposes in 2014 the City merged the following funds into the Sewer fund:

- Fund 421 Sewer Reserve Fund
- Fund 422 Sewer Bond Redemption Fund
- Fund 423 Sewer Bond Reserve Fund
- Fund 424 Sewer Project Fund

City of Tonasket
Schedule of Liabilities
For the Year Ended December 31, 2014

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligations						
259.11	Compensated Balances		19,530	18,351	14,908	22,973
259.11	Tax Liability		1,494	1,403	1,140	1,757
263.98	Copier Lease		3,586	-	2,052	1,534
Total General Obligations:			24,610	19,754	18,100	26,264
Revenue Obligations						
252.11	Water Revenue Bonds CVB	4/5/2025	293,873	-	19,682	274,191
252.11	Sewer DOE	6/30/2021	222,531	-	28,250	194,281
252.11	USDA Sewer	10/1/2032	845,543	-	29,197	816,346
252.11	Sewer DOE Mill Drive/Bonaparte Creek	7/31/2033	52,426	-	1,109	51,317
252.11	USDA Rural Development Car Loan	6/30/2019	-	12,700	1,351	11,349
252.11	CVB Interim Financing	12/31/2015	2,011,224	90,317	2,101,541	-
259.12	Compensated Balances		31,797	10,134	14,401	27,530
259.12	Tax Liability		2,432	775	1,101	2,106
263.99	Capital Purchase Software		10,986	-	5,869	5,117
252.11	USDA Rural Development Water Loan	2/27/2054	-	2,113,000	-	2,113,000
Total Revenue Obligations:			3,470,812	2,226,926	2,202,501	3,495,237
Total Liabilities:			3,495,422	2,246,680	2,220,601	3,521,501

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov