

Washington State Auditor's Office
Financial Statements Audit Report

City of Stevenson
Skamania County

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1011454

Issue Date
March 17, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



Washington State Auditor Troy Kelley

March 17, 2014

Mayor and City Council
City of Stevenson
Stevenson, Washington

Report on Financial Statements

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

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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Skamania County
January 1, 2011 through December 31, 2012**

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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 Stevenson
Skamania County
January 1, 2011 through December 31, 2012**

Mayor and City Council
City of Stevenson
Stevenson, 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Stevenson, Skamania County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 5, 2014. As discussed in Note 16 to the financial statements, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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 opinions 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 March 5, 2014.

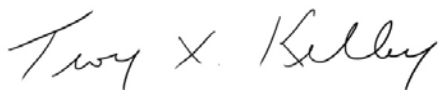
COMPLIANCE AND OTHER MATTERS

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

March 5, 2014

Independent Auditor's Report on Financial Statements

**City of Stevenson
Skamania County
January 1, 2011 through December 31, 2012**

Mayor and City Council
City of Stevenson
Stevenson, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Stevenson, Skamania County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Stevenson, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the current expense, street and tourism special revenue funds, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 16 to the financial statements, in 2011, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 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.

Handwritten signature of Troy X. Kelley in cursive script.

TROY KELLEY
STATE AUDITOR

March 5, 2014

Financial Section

**City of Stevenson
Skamania County
January 1, 2011 through December 31, 2012**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011 and December 31, 2012

The City of Stevenson's discussion and analysis is a narrative overview of the City's financial activities for the fiscal years ended December 31, 2011 and December 31, 2012. This information will assist users in interpreting the basic statements and provide other supplementary information. The information presented here should be read in conjunction with the financial statements and notes to the financial statements that follow.

2011:

FINANCIAL HIGHLIGHTS

- City of Stevenson assets exceeded its liabilities at December 31, 2011 by approximately \$38.73 million; a decrease of \$0.63 million compared to 2010.
- Capital Assets (net of depreciation and related debt) account for about 91.1 percent of this amount, with a value of \$35.26 million
- Of the remaining net position \$1.92 million (unrestricted) may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The government's total capital assets net of related debt showed a decrease of \$308,940. The City is not keeping pace with its depreciation; and with the recession residential developments are not contributing new assets.
- As of December 31, 2011, the City of Stevenson's governmental funds reported Unassigned Fund balances of \$990,000 and restricted fund balances of \$1.15 million.
- City of Stevenson took on no new debt in 2011. At December 31, 2011 the total outstanding bonded debt/loan principal was \$368,292 with another \$42,444 for vacation and sick accruals.
- As a tourism dependent economy the recession is alive and well in this community. The City Council deliberately drew down reserves in the Tourism Promotion Fund to encourage "staycation" stays to help boost the economy.
- The community experienced very little private development in 2011

2012:

- The City of Stevenson aggregated assets exceed its aggregated liabilities on December 31, 2012 by \$38,572,453.

- Capital Assets (net of depreciation) total \$35.2 million with related debt of \$342,568 or a net value of \$34.9 million. All of the debt, repayments are based on user fees.
- Capital assets represent 91% of total City assets. Of the remaining assets, \$2.22 million is available to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The government's total capital assets (net of depreciation) decreased by \$403,484 in 2012. The City is not keeping pace with infrastructure depreciation; and with the recession private developments are not contributing new assets.
- As of December 31, 2012 the City's governmental funds reported Non spendable of \$11,613, restricted balances of \$1,047,232 and remaining assigned/unassigned balances of \$1,540,775. In the government wide total, the government funds (before business activities) reported restricted balances of \$1,048,043 and unrestricted balances of 1,658,740. Total primary government reported restricted balance of 1,457,333 and remaining unrestricted balances of \$2,225,512 and net investment in capital assets of \$34,889,608.
- The City's proprietary fund (a combined water/sewer utility) serves a customer base of 670 residential/commercial customers and posted a \$61,018 increase in net position.
- The City of Stevenson took on no new loans in 2012. At December 31, 2012 the outstanding loans totaled \$342,568; outstanding vacation accruals and sick "buyout" totaled \$51,674.
- As a tourism dependent economy the recession did slow the economy beginning in 2008. For the past two years sales of overnight rooms has improved and is reflected in increased sales taxes. For the past four years the City Council deliberately drew down reserves in the Tourism Promotion Fund to encourage visitation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the City of Stevenson's basic financial statements. This information will assist users in interpreting the basic statements. We will also provide other supplementary information in addition to the basic financial statements. This financial discussion and analysis should assist the reader in understanding the City's financial condition.

Basic Financial Statements

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and, 3) notes to the financial statements. The financial section of this report also contains required supplementary information, in addition to the basic financial statements.

Government-wide financial statements

Government wide financial statements provide readers with a broad overview of the City of Stevenson's finances in a manner similar to a private sector business, distinguishing functions of the City of Stevenson that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of the City of Stevenson include a full range of local government services provided to the public, such as law enforcement and public safety; judicial services; road construction and maintenance; building department; community planning and development; parks and recreation facilities; and other community services. In addition, other general government services are provided, such as, tax collection, and the issuance of permits and licenses. The business type activities of the City of Stevenson include water and sewer utility management and operation.

The statement of net position presents information on all of the City of Stevenson's assets and liabilities, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the City is improving or deteriorating. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The statement of activities presents information showing how the government's net position changed during 2011 and 2012. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent each program relies on taxes for funding. All changes in net position are reported using the accrual basis of accounting, which requires that revenues be reported when they are earned and expenses are reported when the goods and services are received. Items such as uncollected taxes and unpaid vendor invoices for items received during the year will be included in the statement of activities as revenue and expense for that year, even though the cash associated with these items was not received or distributed until the following year.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Stevenson, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. All of the funds of the City fall into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental Funds account for most, if not all, of a government's tax-supported activities. Proprietary Funds account for a government's business type activities where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary Funds account for resources that are held by the government as an agent for parties outside of the government. The

resources of fiduciary funds cannot be used to support the government's own programs. In 2011 and 2012 there were no fiduciary funds.

Governmental funds

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund (Current Expense Fund), the Street Fund, and Tourism Promotion Fund. These are typically considered major funds. In 2010, due to an unusually large real estate excise tax collection the Capital Fund was treated as a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation in 2012; and in 2011, (due to the funding amount) the Columbia Avenue Project was treated as a major fund in 2011.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government wide financial statements accrual basis focus, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. This gives readers a better understanding of the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, facilitating this comparison.

The City maintains budgetary controls over its operating funds. Budgetary controls ensure compliance with legal provisions embodied in the annual appropriated budget. Governmental fund budgets are established in accordance with state law, and are adopted on a fund level. Personnel services are budgeted by position and by prorating the costs based on time allocation to the various funds. Budgetary variances are discussed later in this section.

Proprietary funds

Currently, the City has two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business type activities in the government wide financial statements. The City uses one enterprise fund to account for its water and sewer utilities operation. For larger water/sewer capital projects funded by loan and or grant the City establishes a separate temporary capital project fund (e.g. Base Reservoir Project (2006-8)) to maintain clearer accountability. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for unemployment insurance and equipment rental. These services benefit governmental and business-type functions equally; the GASB standards require consolidation of the internal service activities into either government or enterprise funds. To remain consistent with GASB requirements the City reports internal service fund statement of

net position under the government activities section of the government-wide statements.

The statement of net position is consolidated into the governmental activities section of the government-wide statements. The operating activity is allocated to either governmental or business type activities based on annual usage.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Position to the business-type column on the government-wide Statement of Net Position, the total net position are difference due to the inclusion of a portion of the internal service fund activity at the government wide level. Additionally, the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

GOVERNMENT WIDE FINANCIAL ANALYSIS

Statement of Net Position As noted earlier, changes in net position may serve as a useful indicator of a government's financial position. The City of Stevenson's Total Net Position was reported as follows:

2012 Total Net Position	\$38,572,453	a decrease of \$154,379 from 2011
2011 Total Net Position	\$38,726,832	a decrease of \$108,633 from 2010
2010 Total Net Assets	\$38,835,628	
2009 Total Net Assets	\$39,090,003	

The following is a condensed version of the Government-Wide Statement of Net Position 2011-2012. The pattern is a gradual drop in net position during the early post recession as less funding was invested in capital assets. The City is not keeping up with depreciation in the government funds all of the decrease in the government funds reflects capital asset losses (depreciation and removal of asset). Business funds are doing better with the long term scheduling of replacement assets as they age and with the revenue sources to accomplish this.

Total assets	28,055,009	31,075,244	8,197,893	8,146,832	36,252,902	39,222,076
Long-Term liabilities		0	302,553	325,827	302,553	325,827
Other liabilities	157,037	117,638	65,091	51,778	222,128	169,417
Total liabilities	157,037	117,638	367,644	377,605	524,681	495,244
Net Assets						
Net Investment in						
Capital Assets	28,035,421	28,364,838	6,854,187	6,893,210	34,889,608	35,258,048
Restricted	1,048,044	1,153,274	409,290	397,548	1,457,334	1,550,822
Unrestricted	1,658,739	1,439,494	566,772	478,469	2,225,511	1,917,963
Total net position	\$ 30,742,204	\$ 30,957,606	\$ 7,830,249	\$ 7,769,227	\$ 38,572,453	\$ 38,726,833

The largest portion of the City's net assets (88 to 90 percent) reflects its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. At the end of the 2012 fiscal year the City also had net assets of \$1,457,333 (4%) compared to 2011 totals of \$1,488,429 that are subject to external restrictions on how they may be used. The remaining balance of \$2.2M (2012) and \$1.92M (2011) (unrestricted net assets) represents the amount that may be used to meet the City's ongoing obligations. At December 31, 2012, the City of Stevenson reports positive balances in all three categories of net assets, for the government as a whole, as well as for separate governmental and business-type activities.

Statement of Changes in Net Position

The City's total net position decreased by \$154,379 between the end of 2011 and 2012 with a \$29,437 increase in liabilities principally due to accrued vacations and current accounts payable. There was an increase in the enterprise and business activity fund's net position of \$61,022 for the 2011 to 2012 period. The attached table is a condensed version of the Statement of Changes in Net Position for the City. The full statement is a tabular depiction of the relationship of revenues and expenses for the City's governmental activities and proprietary funds.

Governmental Activity Analysis

Charges for Services and Capital Grants were the highest in non-tax program revenues in both 2011 and 2012. Transportation continues to be the primary recipient of capital grants. Building permits and development fees continue to be low reflecting the slowdown in the development community. The City's tax revenues decreased by \$105,634 in 2011; compared to an increase in 2010 of \$151,424 fueled by real estate excise tax from a single large real estate sale. Sales taxes (including the lodging tax) remain the main source of tax revenue. The City adopted the second half percent of the sales tax in 2012 which boosted sales tax receipts. Property tax revenue, set at the 1% limitation, was almost flat (there were no new annexations or much new building to increase property tax revenues).

In the Statement of Activities in 2011 transportation represented 26% of government expenses and in 2012 it was at 36%. Public safety stayed near 13% to 14% in both years. The City's investment in tourism remains high at 26% of all government expenses in 2011 dropping to 22%

of all non business expenses in 2012. For a third year in a row, interest income plummeted – 2007 collections were at \$113,905 compared to collections of \$6,530 in 2011 and \$5,443 in 2012. Total governmental activity-type expenses decreased by \$215,676 or 9% in 2011 compared to 2010; and bounced back with an increase of \$179,789 in 2012 as compared to 2011. The net position associated with governmental activities decreased by \$178,223 in 2011; this was countered by a one-time large accrual adjustment of \$97,739 to convert the city to full accrual. Governmental activities total net position decreased by \$215,402 from the end of 2011 to the end of 2012.

Business-Type Activities Analysis

The financial position of the City's Business-Type fund, the Water-Sewer Fund, ended 2011 with a decrease in net position of \$28,148, followed by an increase in Net Position at the end of 2012 of \$61,023. This was due to a rate increase and several large capital projects. The City staff continues to meet increasing monitoring requirements in response to Federal and State regulations and maintenance/repair needs from an aging distribution system. In 2011 due to a very wet summer and the recession water use dropped significantly, the Water & Sewer fund posted an operating loss of \$30,889. The City's commercial users, many dependent on the tourism trade, including one major water/sewer user @16% to 17% of total revenue flow, directly impacted the City's water and sewer revenue stream. Water rates were raised at the end of the year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds Analysis

The City uses fund accounting to ensure compliance with legal requirements and to assist in the budgeting and operations of the different activities of the City. Of the eight funds the City has, the governmental funds are categorized into four fund types. Each type has its unique purpose. In 2011 four funds are classified as major funds for the purposes of this report, based on criteria set forth by the GASB. Those funds are the General Fund, the Street Fund, a Special Capital Project Fund (TIB Columbia Ave Improvement Project) and the Tourism Fund. In 2012 there were only three funds classified as major funds.

Governmental Funds fund balances were at \$2,483,559 in 2011 and \$2,599,620 in 2012 a one year increase of \$116,061 and a two year increase of \$191,318 compared to 2010. Increases were in the Current Expense and Street Fund (new tax) with a decrease in the Tourism Fund balances. The largest source of government fund tax revenue is property tax at 38% of total tax revenues in 2011; dropping to 34% in 2012 due to the addition of the second half sales tax. The largest expenditure category is transportation - representing 35% of the Governmental Funds' activity in 2012 and 30% in 2011. Typically, Culture and Recreation (Tourism) follows the lead at 22% of 2012 expenses and 26% of 2011 expenses - reflecting the City's decision to expend reserves on promotion to help the tourism industry during the recession. Between the end of 2010 and the end of 2012 the Tourism Promotion Fund balances had a decrease of \$87,646

again due to a decision to use reserves to increase targeted promotions during the recession and new investment in capital projects serving the tourist.

In 2012 cash and investments balance represents 89% of total assets and 91% in 2011 when property tax receivables are included. After conversion and recognizing capital assets – this balance changes with depreciated capital assets representing 90% of total net government assets in 2012 and 91% in 2011.

The City has assigned \$200,000 for the purchase of a replacement fire truck.

Business-Type Financial Analysis

Proprietary funds are those funds that account for government operations where the intent is for the costs to be primarily paid for by user charges. Enterprise funds are those funds that provide services primarily to external users, and internal service funds provide their services primarily within the City, or to other governmental units. The City has one Business-Type enterprise fund, the Water/Sewer Fund.

The Water-Sewer Fund is the only regular Business-Type fund in the City. This fund's net position was at year-end of \$7.77 million in 2011 and \$7.83 in 2012. After the rate increase the fund ended 2012 with a net positive change of \$61,018. The City Council adopted a sewer rate increase late in 2009 that took effect in 2010 and a water rate increase in 2011 followed by a second increase in 2012 for a net gain of \$45,762 while expenses plummeted by \$29,514. Due to the slow-down in subdivision development there have been no major capital contributions from developers.

GENERAL BUDGETARY HIGHLIGHTS

The City appropriates funds through an annual budget process. The difference between the original budget and the final amended budget increased by \$25,000 with the adoption of the second half percent sales tax in 2012. And in 2011 there was one amendment with a net increase of \$1,000 in private donation to a special project and budget amendments reducing authorizations and redirecting appropriated funds to transfers to special capital projects scheduled for construction in 2012. Current Expense expenditures were at 47% of budget and Street Fund was at 77% of budget in 2011. In 2012 Current Expense expenditures were at 52% and the street budget at 42% of appropriations. The City deliberately budgeted reserves down in the Tourism Promotion Fund to encourage travel to the community during the recession. After conversion Culture and Recreation expenses totaled \$390,025 in 2011 and \$343,968 in 2011. After conversion primary government expenditures increased by \$104,975 between 2011 and 2012 while business type expenses decreased by \$26,514 reflecting how field time assignments can radically impact the financial reports.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Stevenson's investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2011, amounts to \$35,644,116 (net of accumulated depreciation) a decrease of \$316,751. This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, and construction in progress on buildings and systems. During this two year period the City complied with the GASB decision to separate intangibles (software) from equipment and report this asset under a separate category. And, in 2010 the City initiated a major review of its asset system and addressed an audit request to review lifetimes. This did result in some increases in depreciation costs - \$16,000 in Water/Sewer annually and more than \$160,000 in infrastructure.

Capital Assets 2010 – 2011

Net of Depreciation

	Governmental Activities		Business Activities		Government Wide	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Land	\$ 11,623,070	\$ 11,623,070	\$ 146,356	\$ 146,356	\$ 11,769,426	\$ 11,769,426
Works of Art	25,787	25,787	0		25,787	25,787
Construction in Progress	320,934	220,670	98,772	140,978	419,706	361,648
Buildings	136,958	137,661	453,990	467,728	590,948	605,389
Equipment	360,997	407,931	223,723	248,522	584,720	656,453
Infrastructure	15,517,534	15,739,594		0	15,517,534	15,739,594
Other Improvements	398,749	414,222	6,337,246	6,388,348	6,735,995	6,802,570
	<u>\$ 28,384,029</u>	<u>\$ 28,568,935</u>	<u>\$ 7,260,087</u>	<u>\$ 7,391,932</u>	<u>\$ 35,644,116</u>	<u>\$ 35,960,867</u>

Capital Assets 2011-2012

Net of Depreciation

	12/31/2012		12/31/2011		12/31/2011		12/31/2011	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011	12/31/2012	12/31/2011	12/31/2011	12/31/2011
Land	\$ 11,623,070	\$ 11,623,070	\$ 146,356	\$ 146,356	\$ 11,769,426	\$ 11,769,426		
Works of Art	25,787	25,787	0	0	25,787	25,787		
Construction in Progress	82,154	320,934	23,817	98,772	105,971	419,706		
Buildings	139,424	136,958	448,685	453,990	588,109	590,948		
Intangibles	8,775		19,433		28,208	0		
Equipment	327,465	360,997	200,294	223,723	527,759	584,720		
Infrastructure	15,346,014	15,517,534	0		15,346,014	15,517,534		
Other Improvements	499,473	398,749	6,349,885	6,337,246	6,849,358	6,735,995		
	<u>\$ 28,052,162</u>	<u>\$ 28,384,029</u>	<u>\$ 7,188,470</u>	<u>\$ 7,260,087</u>	<u>\$ 35,240,632</u>	<u>\$ 35,644,116</u>		

There were no major capital asset additions from contributed assets constructed by developers during the 2011-2012 periods. These assets generally would include sewer and water distribution lines, hydrants, manholes, pump stations, storm drainage systems, new roads, street lights, sidewalks, curbs, gutters, and irrigations systems for parks. The building recession has impacted Stevenson and essentially frozen the completion of two large subdivisions

The City also hires, under contractual agreements, contractors to construct or build capital assets. During this two year period there was only one significant construction project completed – the Columbia Avenue rebuild funded primarily by a capital grant (TIB) in government activities. Retainage was held on the project in a city managed bank account and was still of record at the beginning of 2012 – when it was released. And a major collection system (\$91,399) was installed on Gropper Road, partially funded by CDBG Housing Infrastructure grant for \$91,399.

And in 2012 the City's staff closed out a long list of small upgrades to the sewer plant including a replacement of a catwalk on the sewer digester (\$8,530) and repairs and replacement of water pipeline along Loop Road.

Additional information on the City of Stevenson's capital assets can be found in Note 6 (Capital Assets) of this report.

Long Term Debt

At December 31, 2011, the City of Stevenson had total long-term debt (PWTF) outstanding of \$349,101 (Water) that dropped to \$325,827 at the end of 2102 and in the general government long term debt (RD) of \$19,191 that dropped to \$16,741 (Eq Service) at the end of 2012. Both debts are revenue debts payable from business type activities.

The City did not incur new debt; but has restated the reporting to include vacation and sick accruals with a total due of \$42,444 at the end of 2011 and \$51,674 at the end of 2012 accrued. Vacation/sick accruals include \$24,701 (2011) / \$33,346 (2012) in the government Funds and \$17,743 (2011)/\$18328 (2012) in the Business Funds.

Additional information on the City's long-term debt can be found in Note 11 (Long-term Debt) of the notes to the financial statement in this report and in the Supplemental Statistical Section. At the end of 2012 the City had no General Obligation long term debt and has a remaining debt capacity of \$5,445,845 without a vote of the people.

Future Financial Condition of the City

After 2007 the City experienced a slow-down in the issuance of new residential permits and subdivision development (@ 57% of 2006-7). Not unusual for a small rural city ... but with the 2010 census the Federal Government has redefined Skamania County as part of the Portland-Vancouver metropolitan area where construction of new homes has been increasing. The Skamania County Assessor reports that the volume of sales decreased through 2010 and

begins increasing slowly with values flattened by approximately 1 to 3%. Existing home sales are more attractive than bare land sales at the moment.

Despite the nation-wide 'collapse' of tourism during the "Great Recession" the City's tourism has recovered rather swiftly with a promotion of "stay-cations" and the return of business conferences. The City will continue to focus lodging tax funding on promotion of the area, developing events to attract overnight guests and facilities that will provide those that stay with a selection of activities.

The Sewer Plant major upgrade passed its twentieth year in 2012 and the City Public Works Department will be reviewing its plan to address both collection extensions and plant operating upgrades to meet new regulations imposed by DOE. The application for NPDES Permit renewal is due in 2013 and may spark the need for an update to the plan.

The water utility raised rates at the beginning of 2012 to meet increasing monitoring and testing demands. Revenues are good and will continue to provide funding for the replacement of the number of old lines in the system – to help proven water loss.

Recognizing the increasing costs for providing for storm drainage and more environmental demands on the design for these systems the Public Works Department will be preparing a proposal to the Council to establish a new Storm Drainage Utility to help address replacement and maintenance costs for these systems. This will reduce demands on the general tax revenues (gas taxes and certain excise taxes) to allow those funds to be directly invested in street improvements.

The City continues to serve as the commercial and governmental center of Skamania County. The School and local governments are among the largest employers. With the loss of Federal Timber support for small rural counties and schools the expectation is that both these sectors will experience reductions in staff. The Stevenson-Carson School District successfully supported a levy and will be able to minimize their staffing cuts. The County is experiencing significant staff reductions.

During the recession the Planning Department focused on updating its comprehensive plan and developing guidelines for future growth within the City. The planning process successfully involved a large number of citizens and was concluded in early 2013.

With 22% of its land and buildings exempt from property taxes the City will continue to struggle to serve a large non-residential population that places demands on the City's infrastructure but contributes little to its maintenance.

Requests for Information

This financial report is designed to provide a general overview of the City of Stevenson's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Finance Department, City of Stevenson, PO Box 371, Stevenson, WA, 98648.

	Government Activities		Business Type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2012
Revenues:						
Program Revenues						
Charges for Services Op Grant and Contribs	133,013	130,466	746,192	780,133	879,205	910,599
Capital Grants	78,690	134,498	164,410	14,600	243,100	149,098
General Revenues						
Property Taxes	393,068	395,363			393,068	395,363
Sales Taxes	485,142	497,629			485,142	497,629
Other Taxes	252,097	84,044			252,097	84,044
Intergovern Rev		45,479			0	45,479
Interest Income	9,266	6,530	1,503	1,352	10,769	7,882
Other Revenues	683	3,343			683	3,343
Adjust prepaid ins		13,170			0	13,170
Total Revenues	1,358,323	1,313,880	913,871	797,067	2,272,194	2,110,947
Expenses:						
General Government	183,004	173,305			183,004	173,305
Judicial	76,840	88,914			76,840	88,914
Public Safety	226,310	216,863			226,310	216,863
Physical Environment	77	30			77	30
Transportation	735,891	458,201			735,891	458,201
Health/Human Service	165,798	162,257			165,798	162,257
Economic Environment	377	348			377	348
Culture & Recreation	362,554	390,025			362,554	390,025
Interest - long term debt	2,657	2,160	2,654		5,311	2,160
Water and Sewer			768,617	825,216	768,617	825,216
Total Expenses	1,753,508	1,492,103	771,271	825,216	2,524,779	2,317,319
Change in Net Position	-395,185	-178,223	142,600	-28,149	-252,585	-206,372
Net Position - Beginning Prior Period	31,436,450	31,038,090	7,650,667	7,797,374	39,087,117	38,835,464
Adjustment	-3,175	97,739			94,564	97,739
Net Position - Ending	31,038,090	30,957,606	7,793,267	7,769,225	38,831,357	38,726,831

	Government Activities		Business Type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program Revenues						
Charges for Services Op Grant and Contribs	130,466	96,373	780,133	825,895	910,599	922,268
Capital Grants	3,358	41,148	982	449	4,340	41,597
	134,498	55,986	14,600	20,413	149,098	76,399
General Revenues						
Property Taxes	395,363	407,391			395,363	407,391
Sales Taxes	497,629	597,408			497,629	597,408
Other Taxes	84,044	119,121			84,044	119,121
Intergovern Rev	45,479	59,052			45,479	59,052
Interest Income	6,530	5,443	1,352	1,572	7,882	7,015
Other Revenues	3,343	10,248		180	3,343	10,428
Adjust prepaid ins	13,170				13,170	0
Total Revenues	1,313,880	1,392,170	797,067	848,509	2,110,947	2,240,679
Expenses:						
General Government	173,305	214,175			173,305	214,175
Judicial	88,914	81,650			88,914	81,650
Public Safety	216,863	209,908			216,863	209,908
Physical Environment	30	0			30	0
Transportation	458,201	582,214			458,201	582,214
Health/Human Service	162,257	27,311			162,257	27,311
Economic Environment	348	146,695			348	146,695
Culture & Recreation	390,025	343,968			390,025	343,968
Interest - long term debt	2,160	1,651			2,160	1,651
Water and Sewer			825,216	787,486	825,216	787,486
Total Expenses	1,492,103	1,607,572	825,216	787,486	2,317,319	2,395,058
Change in Net Position	-178,223	-215,402	-28,149	61,023	-206,372	-154,379
Net Position - Beginning Prior Period Adjustment	31,038,090	30,957,606	7,797,374	7,769,226	38,835,464	38,726,832
	97,739				97,739	0
Net Position - Ending	30,957,606	30,742,204	7,769,225	7,830,249	38,726,831	38,572,453

CITY OF STEVENSON, WASHINGTON

Statement of Net Position

For the Year Ended December 31, 2012

	Governmental Activities	Business-type Activities	Total Primary Government
Assets			
Cash and Cash Equivalents	\$ 536,619	\$ 240,572	\$ 777,191
Cash/Insurance, Fiscal Agent	3,600	2,760	6,360
Investments	2,018,103	272,000	2,290,103
Receivables (Net of Allowance for Uncollectible)			
Taxes Receivable	35,980	-	35,980
Interest Receivable	653	504	1,157
Accounts Receivable	130,120	77,743	207,863
Court receivables	14,458	-	14,458
Due from Other Gvmtl Units/interfund loan	70,581	-	70,581
Internal Balances	24,541	(24,541)	-
Inventories	11,613	31,095	42,708
Restricted Assets			
Cash	811	31,290	32,101
Investments	-	378,000	378,000
Capital Assets (Net of Accumulated Depreciation)			
Land	11,623,070	146,356	11,769,426
Works of Art	25,787	-	25,787
Buildings	139,424	448,685	588,109
Improvements Other than Buildings	499,473	6,349,885	6,849,358
Machinery and Equipment	327,465	200,294	527,759
Intangibles	8,775	19,433	28,208
Infrastructure	15,346,014	-	15,346,014
Construction Work in Progress	82,154	23,817	105,971
Total Capital Assets	<u>28,052,162</u>	<u>7,188,470</u>	<u>35,240,632</u>
Total Assets	<u><u>30,899,241</u></u>	<u><u>8,197,893</u></u>	<u><u>39,097,134</u></u>
Liabilities and Net Position			
Current Liabilities:			
Accounts Payable and Other Current Liabilities	91,648	19,915	111,563
Debt Payable	184	-	184
Accrued employees benefits	33,346	18,328	51,674
Accrued Interest Payable	-	815	815
Insurance accruals	7,395	2,760	10,155
Custodial Accounts	7,723	-	7,723
Total Current Liabilities	<u>140,296</u>	<u>41,817</u>	<u>182,113</u>
Noncurrent Liabilities:			
Due within One Year	2,509	23,274	25,783
Due in More than One Year	14,232	302,553	316,785
Total Non-Current Liabilities	<u>16,741</u>	<u>325,827</u>	<u>342,568</u>
Total Liabilities	<u>157,037</u>	<u>367,644</u>	<u>524,681</u>
Net Position			
Net Investment in Capital Assets	28,035,421	6,854,187	34,889,608
Restricted for Tourism Purposes	782,566	-	782,566
Restricted for Capital Purposes	264,666	396,839	661,505
Restricted for Debt Purposes	811	12,451	13,262
Unrestricted	1,658,740	566,772	2,225,512
Total Net Position	<u><u>\$ 30,742,204</u></u>	<u><u>\$ 7,830,249</u></u>	<u><u>\$ 38,572,453</u></u>

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

CITY OF STEVENSON, WASHINGTON
Statement of Net Position
For the Year Ended December 31, 2011

	Governmental Activities	Business-type Activities	Total Primary Government
Assets			
Cash and Cash Equivalents	\$ 370,052	\$ 179,060	\$ 549,112
Cash/Insurance, Fiscal Agent		3,680	3,680
Investments	2,129,098	222,000	2,351,098
Receivables (Net of Allowance for Uncollectible)			
Taxes Receivable	137,952	-	137,952
Interest Receivable	483	302	785
Accounts Receivable	-	74,166	74,166
Court receivables	14,544	-	14,544
Due from Other Governmental Units	2,155	-	2,155
Internal Balances	25,499	(25,499)	-
Inventories	10,621	35,487	46,108
Restricted Assets			
Cash	811	25,549	26,360
Investments	-	372,000	372,000
Capital Assets (Net of Accumulated Depreciation)			
Land	11,623,070	146,356	11,769,426
Works of Art	25,787	-	25,787
Buildings	136,958	453,990	590,948
Improvements Other than Buildings	398,749	6,337,246	6,735,995
Machinery and Equipment	360,997	223,723	584,720
Infrastructure	15,517,534	-	15,517,534
Construction Work in Progress	320,934	98,772	419,706
Total Capital Assets	28,384,029	7,260,087	35,644,116
Total Assets	\$ 31,075,244	\$ 8,146,832	\$ 39,222,076
Liabilities and Net Position			
Current Liabilities:			
Accounts Payable and Other Current Liabilities	\$ 50,235	\$ 6,208	\$ 56,443
Retainage Payable	5,736	-	5,736
Accrued employees benefits	24,701	17,743	42,445
Accrued Interest Payable	210	873	1,083
Insurance accruals	9,700	3,680	13,380
Custodial Accounts	7,865	-	7,865
Total Current Liabilities	98,447	28,504	126,952
Noncurrent Liabilities:			
Due within One Year	2,403	23,274	25,677
Due in More than One Year	16,788	325,827	342,615
Total Non-Current Liabilities	19,191	349,101	368,292
Total Liabilities	117,638	377,605	495,244
Net Position			
Net Investment in Capital Assets	28,364,838	6,893,210	35,258,048
Restricted for Tourism Purposes	805,194	-	805,194
Restricted for Capital Purposes	305,778	385,039	690,817
Restricted for Transportation Purposes	41,491	-	41,491
Restricted for Debt Purposes	811	12,509	13,320
Unrestricted	1,439,494	478,468	1,917,962
Total Net Position	30,957,606	7,769,226	38,726,832

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

CITY OF STEVENSON, WASHINGTON
 Statement of Activities
 For the Year Ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities:							
General Government	\$ 214,175	\$ 1,445	\$ 175	\$ -	\$ (212,556)	\$ -	\$ (212,556)
Judicial	81,650	17,661	1,430	-	(62,559)	-	(62,559)
Public Safety	209,908	16,971	4,804	-	(188,133)	-	(188,133)
Transportation	582,214	13,052	29,618	55,986	(483,558)	-	(483,558)
Health and Human Services	27,311	-	-	-	(27,311)	-	(27,311)
Economic Environment	146,695	47,244	5,121	-	(94,329)	-	(94,329)
Culture and Recreation	343,968	-	-	-	(343,968)	-	(343,968)
Interest on Long-Term Debt	1,651	-	-	-	(1,651)	-	(1,651)
TOTAL GVMT ACTIVITIES	1,607,572	96,373	41,148	55,986	(1,414,065)	-	(1,414,065)
Business-Type Activities:							
Water - Sewer	787,486	825,895	449	20,413	-	59,271	59,271
TOTAL BUSINESS-TYPE ACTIVITIES	787,486	825,895	449	20,413	-	59,271	59,271
Total Primary Government	\$ 2,395,058	\$ 922,268	\$ 41,597	\$ 76,399	\$ (1,414,065)	\$ 59,271	\$ (1,354,794)
General Revenues:							
Taxes:							
Property Taxes Levied for General Purposes					407,391	\$ -	-
Sales and Use Taxes					597,408	-	-
Other Taxes					119,121	-	119,121
Intergov Reve (grants, contrib) not Restricted to specific programs					59,052	-	59,052
Unrestricted Investment Earnings					5,444	1,572	7,016
Gain on Sale of Capital Assets					9,659	-	9,659
Miscellaneous					589	180	769
Total General Revenues, Extraordinary, Special Items, and Transfers					1,198,664	1,752	1,200,416
Change in Net Position					(215,402)	61,023	(154,379)
Net Position - Beginning					30,957,606	7,769,226	38,726,832
Net Position - Ending					\$ 30,742,204	\$ 7,830,249	\$ 38,572,453

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

CITY OF STEVENSON, WASHINGTON
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -type Activities	Total
Governmental Activities:							
General Government	\$ 173,305	\$ 1,426	\$ -	\$ -	(171,879)	\$ -	(171,879)
Judicial	88,914	24,363	-	-	(64,552)	-	(64,552)
Public Safety	216,863	18,451	1,000	-	(197,412)	-	(197,412)
Physical Environment	30	-	-	-	(30)	-	(30)
Transportation	458,201	31,668	2,358	134,498	(289,677)	-	(289,677)
Health and Human Services	162,257	-	-	-	(162,257)	-	(162,257)
Economic Environment	348	54,558	-	-	54,210	-	54,210
Culture and Recreation	390,025	-	-	-	(390,025)	-	(390,025)
Interest on Long-Term Debt	2,160	-	-	-	(2,160)	-	(2,160)
TOTAL GOVERN ACTIVITIES	1,492,103	130,466	3,358	134,498	(1,223,781)	-	(1,223,781)
Business-Type Activities:							
Water - Sewer	825,216	780,133	982	14,600	-	(29,501)	(29,501)
TOTAL BUSINESS-TYPE ACTIVITIES	825,216	780,133	982	14,600	-	(29,501)	(29,501)
Total Primary Government	\$ 2,317,319	\$ 910,599	\$ 4,340	\$ 149,098	(1,223,781)	\$ (29,501)	(1,253,282)
General Revenues:							
Taxes:							
Property Taxes Levied for General Purposes					395,363	-	395,068
Sales and Use Taxes					497,629	-	497,629
Excise taxes					84,044	-	84,044
B & O Taxes					45,479	-	45,479
Unrestricted Investment Earnings					6,530	1,353	7,883
Miscellaneous					16,513	-	16,513
Total General Revenues, Extraordinary, Special Items, and Transfers					1,045,558	1,353	1,046,911
Change in Net Position					(178,223)	(28,148)	(206,371)
Net Position - Beginning					31,038,090	7,797,374	38,835,464
Prior year adjustments (see note 16)					97,739	-	97,739
Net Position - Ending					\$ 30,957,606	\$ 7,769,226	\$ 38,726,832

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

CITY OF STEVENSON, WASHINGTON
Governmental Funds
Balance Sheet
December 31, 2012

	Current Expense	Street Fund	Tourism Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 123,250	\$ 93,959	\$ 86,778	\$ 189,221	\$ 493,209
Investments	1,078,103	60,000	654,000	191,000	1,983,103
Receivables	108,828	33,897	38,399	81	181,205
Due from Other Governmental Units	7,659	4,904	30,669	57,822	101,054
Prepayments & Inventories	7,443	4,170	-	-	11,613
TOTAL ASSETS	<u>1,325,284</u>	<u>196,930</u>	<u>809,846</u>	<u>438,124</u>	<u>2,770,184</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	27,101	4,006	27,280	\$ 31,801	90,189
Due to Other Governments/private	3,112	-	-	-	3,112
Deferred Revenue	50,438	-	-	-	50,438
Interfund Loan payable	22,214	-	-	-	22,214
Restricted Court Accounts	4,611	-	-	-	4,611
TOTAL LIABILITIES	<u>107,476</u>	<u>4,006</u>	<u>27,280</u>	<u>31,801</u>	<u>170,564</u>
Fund Balances:					
Non-Spendable	7,443	4,170	-	-	11,613
Restricted	-	-	782,566	264,666	1,047,232
Assigned	200,000	188,754	-	141,657	530,411
Unassigned	1,010,364	-	-	-	1,010,364
TOTAL FUND BALANCE	<u>1,217,807</u>	<u>192,924</u>	<u>782,566</u>	<u>406,323</u>	<u>2,599,620</u>
Total Liabilities and Fund Balance	<u>\$ 1,325,283</u>	<u>\$ 196,930</u>	<u>\$ 809,846</u>	<u>\$ 438,124</u>	<u>\$ 2,770,184</u>

Amounts reported for governmental activities in the Statement of Net Position are different due to: (See Note 2)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	\$ 27,867,947
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds	50,438
Internal service funds are used to charge the costs of services to individual funds. Assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	260,229
Long-term liabilities that are not due and payable in the current period and therefore not reported in the funds.	<u>(36,030)</u>
Net position of governmental activities	<u>\$ 30,742,204</u>

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

CITY OF STEVENSON, WASHINGTON
Governmental Funds
Balance Sheet
December 31, 2011

	Current Expense	Street Fund	Tourism Special Revenue Fund	Columbia Avenue Project	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and Cash Equivalents	\$ 58,685	\$ 47,112	\$ 30,243	\$ 5,866	\$ 192,674	\$ 334,579
Investments	1,123,098	55,000	699,000	-	201,000	2,078,098
Taxes Receivable	50,758	7,993	36,640	-	-	95,391
Property Taxes Receivables (net)	42,561	-	-	-	-	42,561
Interest Receivable	254	6	113	-	94	467
Interfund Loan Receivable	-	-	60,737	-	-	60,737
Court Receivables	14,544	-	-	-	-	14,544
Due from Other Govmtl Units	1,080	926	-	-	-	2,006
Inventories	6,150	4,470	-	-	-	10,621
Total Assets	<u>1,297,130</u>	<u>115,507</u>	<u>826,734</u>	<u>5,866</u>	<u>393,768</u>	<u>2,639,005</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts Payable	24,332	2,802	21,539	130	-	48,804
Retainage Payable	-	-	-	5,736	-	5,736
Interfund Loan Payable	42,960	-	-	-	-	42,960
Custodial Deposits	7,865	-	-	-	-	7,865
Deferred Revenues	35,535	-	-	-	-	35,535
Deferred Rev - Court Receivable	14,544	-	-	-	-	14,544
Total Liabilities	<u>125,237</u>	<u>2,802</u>	<u>21,539</u>	<u>5,866</u>	<u>-</u>	<u>155,445</u>
Fund Balances:						
Nonspendable	6,150	4,470	-	-	-	10,620
Restricted	-	41,491	805,194	-	305,778	1,152,464
Assigned	175,000	66,743	-	-	87,990	329,733
Unassigned	990,743	-	-	-	-	990,743
Total Fund Balance	<u>1,171,893</u>	<u>112,704</u>	<u>805,194</u>	<u>-</u>	<u>393,768</u>	<u>2,483,560</u>
Total Liabilities and Fund Balance	\$ <u>1,297,130</u>	\$ <u>115,506</u>	\$ <u>826,734</u>	\$ <u>5,866</u>	\$ <u>393,768</u>	\$ <u>2,639,005</u>

Amounts reported for governmental activities in the Statement of Net Position are different due to: (see Note 2)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	28,198,382
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds, less prepaid insurance:	50,079
Internal service funds are used to charge the costs of services to individual funds. Assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets:	246,671
Adjustment for accumulated loss/gain from internal service fund to water sewer fund of \$7,722 & correction of \$4,107 from error in 2010:	3,615
Long-term liabilities that are not due and payable in the current period and are not reported in the funds:	<u>(24,701)</u>
Net position of governmental activities	\$ <u>30,957,606</u>

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

CITY OF STEVENSON, WASHINGTON
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the year ended December 31, 2012

	Current Expense	Street Fund	Tourism Special Revenue Fund	Other Govern Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 665,403	\$ 135,016	\$ 310,828	\$ 12,456	\$ 1,123,703
Licenses and Permits	28,333	10,625	-	-	38,958
Charges for Services	37,327	-	-	-	37,327
Intergovernmental Revenues	24,752	51,177	-	75,724	151,653
Fines and Penalties	17,747	-	-	-	17,747
Interest Earnings	2,249	125	2,559	432	5,365
Miscellaneous	319	129	-	-	448
Total Revenues	776,130	197,072	313,387	88,612	1,375,201
Expenditures:					
Current					
General Government	185,534	-	-	-	185,534
Judicial	81,650	-	-	-	81,650
Security/Persons and Property	186,692	-	-	-	186,692
Physical Environment	-	-	-	-	-
Transportation	6,110	188,550	-	-	194,660
Economic Environment	28,623	-	-	-	28,623
Mental and Physical Health	146,396	299	-	-	146,695
Culture and Recreation	-	-	333,951	-	333,951
Capital Outlays	6,371	1,003	2,064	91,058	100,496
Debt Service					
Principal Retirement	-	-	-	-	-
Interest/Fiscal Charges	838	-	-	-	838
Total Expenditures	642,215	189,852	336,015	91,058	1,259,140
Excess (Deficiency) of Revenues Over (Under) Expenditures	133,914	7,219	(22,628)	(2,446)	116,059
Other Financing Sources (Uses)					
Transfers In	-	73,000	-	70,000	143,000
Transfers Out	(88,000)	-	-	(55,000)	(143,000)
Total Other Finan Sources and Uses	(88,000)	73,000	-	15,000	-
Net Change in Fund Balances	45,914	80,219	(22,628)	12,554	116,059
Fund Balance at Beginning of Year	1,171,893	112,705	805,194	393,769	2,483,561
Fund Balance at End of Year	\$ 1,217,807	\$ 192,924	\$ 782,566	\$ 406,323	\$ 2,599,620

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

CITY OF STEVENSON, WASHINGTON

Reconciliation of the Statement of Revenues, Expenditures and Changes in Net Position
of Governmental Funds to the Statement of Activities
Year Ended December 31, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds:	\$	116,059
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.		(330,385)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(50,130)
Earned but not available revenues		50,438
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds-vacation accruals		
	Current	(36,031)
	Prior year	28,859
Internal service funds are used by management to charge the costs of equipment and unemployment insurance to individual funds. The net activity of certain activities of internal service funds is reported with governmental activities.		5,788
Changes in Net Position (governmental activities)	\$	<u>(215,402)</u>

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

CITY OF STEVENSON, WASHINGTON
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the year ended December 31, 2011

	Current Expense	Street Fund	Tourism Special Revenue Fund	Columbia Avenue Project	Other Govern Funds	Total Governmental Funds
Revenues:						
Property Taxes	\$ 403,914	\$ -	\$ -	\$ -	\$ 7,290	\$ 411,204
Sales and Use Taxes	179,326	-	318,303	-	-	497,629
Other Taxes(B&O/Excise)	45,485	38,548	-	-	-	84,033
License and Permits	37,412	150	-	-	-	37,562
Intergovernmental	36,348	49,071	-	128,618	-	214,037
Charges for Services	34,795	896	-	-	-	35,691
Fines and Forfeits	15,917	-	-	-	-	15,917
Interest Earnings	2,520	107	3,316	-	480	6,423
Miscellaneous	3,285	843	-	-	1,000	5,128
Total Revenues	759,002	89,615	321,619	128,618	8,770	1,307,624
Expenditures:						
Current						
General Government	158,863	-	-	-	-	158,863
Judicial	88,914	-	-	-	-	88,914
Security/Persons and Property	193,306	-	-	-	-	193,306
Physical Environment	30	-	-	-	-	30
Transportation	-	148,483	-	-	-	148,483
Economic Environment	163,303	-	-	-	-	163,303
Mental and Physical Health	144	204	-	-	-	348
Culture and Recreation	25,116	-	361,646	-	-	386,762
Capital Outlays	14,980	25,253	-	148,618	-	188,851
Debt Service	-	-	-	-	-	-
Principal Retirement	-	-	-	-	-	-
Interest/Fiscal Charges	1,245	-	-	-	-	1,245
Total Expenditures	645,902	173,940	361,646	148,618	-	1,330,106
Excess (Deficiency) of Revenues Over (Under) Expenditures	113,100	\$ (84,325)	(40,027)	(20,000)	8,770	(22,481)
Other Financing Sources (Uses)						
Transfers In	-	79,000	-	20,000	64,500	163,500
Transfers Out	(79,000)	-	(56,500)	-	(28,000)	(163,500)
Total Other Fin Srcs and Uses	(79,000)	79,000	(56,500)	20,000	36,500	-
Net Change in Fund Balances	34,100	\$ (5,325)	\$ (96,527)	-	45,270	\$ (22,481)
Fund Balance at Beginning of Year	1,079,547	110,044	870,213	-	348,498	2,408,302
Prior Year Adjustment (Note 16)	58,246	7,985	31,508	-	-	97,739
Fund Balance at End of Year	\$ 1,171,893	\$ 112,704	\$ 805,194	\$ -	\$ 393,768	\$ 2,483,560

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

CITY OF STEVENSON, WASHINGTON

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
Year Ended December 31, 2011

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds:	\$	(22,481)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.		(159,848)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (with correction for accruals).		(61,301)
Earned but Not Available Revenues		57,105
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds-vacation accruals, prepd ins		
	Current	(24,701)
	Prior Year	33,811
Internal service funds are used by management to charge the costs of equipment and unemployment insurance to individual funds. The net activity of certain activities of internal service funds is reported with governmental activities.		<u>(808)</u>
Changes in Net Position (governmental activities)	\$	<u><u>(178,223)</u></u>

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

CITY OF STEVENSON, WASHINGTON

Current Expense

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget (GAAP Basis) and Actual

For the Fiscal Year Ended December 31, 2012

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	594,100	594,100	665,403	71,303
License and Permits	26,315	26,315	28,333	2,018
Charges for Services	25,525	25,525	37,327	11,802
Intergovernmental Revenues	37,250	37,250	24,752	(12,498)
Fines and Penalties	15,250	15,250	17,747	2,497
Investment Earnings	1,500	1,500	2,249	749
Miscellaneous	100	100	319	219
Total Revenues	<u>700,040</u>	<u>700,040</u>	<u>776,130</u>	<u>76,090</u>
Expenditures:				
Current				
General Government	225,675	225,675	185,534	40,141
Judicial	89,850	89,850	81,650	8,200
Public Safety	290,350	290,350	186,692	103,658
Health & Human Services	6,150	6,150	6,110	40
Culture and Recreation	40,250	40,250	28,623	11,627
Economic	209,975	209,975	146,396	63,579
Debt Service:				
Principal	-	-	-	-
Interest & Other Charges	839	839	838	1
Capital Outlays	<u>403,951</u>	<u>403,951</u>	<u>6,371</u>	<u>397,580</u>
Total Expenditures	<u>1,267,040</u>	<u>1,267,040</u>	<u>642,215</u>	<u>624,825</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(567,000)	(567,000)	133,914	700,914
Other Financing Sources (Uses):				
Transfers Out	<u>(88,000)</u>	<u>(88,000)</u>	<u>(88,000)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(88,000)</u>	<u>(88,000)</u>	<u>(88,000)</u>	<u>-</u>
Net Change in Fund Balance	(655,000)	(655,000)	45,914	700,914
Fund Balances at Beginning of Year	900,000	900,000	1,171,893	271,893
Prior Period Adjustment				
Fund Balances at End of Year	<u>\$ 245,000</u>	<u>\$ 245,000</u>	<u>\$ 1,217,807</u>	<u>\$ 972,807</u>

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

CITY OF STEVENSON, WASHINGTON
 Current Expense
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (GAAP Basis) and Actual
 For the Fiscal Year ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes - Property, Excise, B & O, Sales)	\$ 569,100	\$ 569,100	\$ 640,048	\$ 70,948
Charges - License and Permits	26,315	26,315	35,422	9,107
Intergovernmental	43,250	43,250	59,794	16,544
Charges for Services	1,050	1,050	2,016	966
Fines	14,800	14,800	15,917	1,117
Interest Earnings	1,750	1,750	2,565	815
Miscellaneous	-	-	3,240	3,240
Total Revenues	<u>656,265</u>	<u>656,265</u>	<u>759,002</u>	<u>102,737</u>
Expenditures:				
Current				
General Government	216,825	216,825	158,863	57,962
Judicial	87,800	87,800	88,914	(1,114)
Security/Persons and Property	299,910	299,910	193,306	106,604
Physical Environment	12,000	12,000	30	11,970
Transportation	-	-	-	-
Economic Environment	236,076	228,076	163,303	64,773
Mental and Physical Health	150	150	144	6
Culture and Recreation	43,750	43,750	25,116	18,634
Capitalized Expenditures	463,754	463,754	14,980	448,774
Debt Service				
Principal Retirement	-	-	-	-
Interest/Fiscal Charges	-	-	1,245	-
Total Expenditures	<u>1,360,265</u>	<u>1,352,265</u>	<u>645,902</u>	<u>707,608</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(704,000)	(696,000)	113,100	810,345
Other Financing Sources (Uses):				
Transfers Out	(71,000)	(79,000)	(79,000)	-
Total Other Financing Sources and Uses	<u>(71,000)</u>	<u>(79,000)</u>	<u>(79,000)</u>	<u>-</u>
Net Change in Fund Balance	(775,000)	(775,000)	34,100	810,345
Fund Balances at Beginning of Year	700,000	700,000	1,079,547	379,547
Prior Period Adjustment (Note 17)	-	-	58,246	-
Fund Balances at End of Year	<u>\$ (75,000)</u>	<u>\$ (75,000)</u>	<u>\$ 1,171,893</u>	<u>\$ 1,189,892</u>

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

CITY OF STEVENSON, WASHINGTON
Street Fund Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Fiscal Year Ended December 31, 2012

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 68,000	\$ 93,000	\$ 135,016	\$ 42,016
License and Permits	150	150	10,625	10,475
Intergovernmental	39,250	39,250	51,177	11,927
Interest Earnings	75	75	125	50
Miscellaneous	-	-	129	129
Total Revenues	<u>107,475</u>	<u>132,475</u>	<u>197,072</u>	<u>64,597</u>
Expenditures:				
Current				
Transportation	211,750	231,750	188,550	43,200
Mental and Physical Health	200	200	299	(99)
Debt Service				
Principal Retirement	-	-	-	-
Interest/Fiscal Charges	-	-	-	-
Capitalized Expenditures	<u>24,500</u>	<u>24,500</u>	<u>1,003</u>	<u>23,497</u>
Total Expenditures	<u>236,450</u>	<u>256,450</u>	<u>189,852</u>	<u>66,598</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(128,975)	(123,975)	7,219	131,194
Other Financing Sources (Uses):				
Transfers In	73,000	73,000	73,000	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>73,000</u>	<u>73,000</u>	<u>73,000</u>	<u>-</u>
Net Change in Fund Balance	(55,975)	(50,975)	80,219	131,194
Fund Balances at Beginning of Year	<u>108,389</u>	<u>108,389</u>	<u>112,705</u>	<u>4,316</u>
Fund Balances at End of Year	<u>\$ 52,414</u>	<u>\$ 57,414</u>	<u>\$ 192,924</u>	<u>\$ 135,510</u>

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

CITY OF STEVENSON, WASHINGTON
Street Fund Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Fiscal Year Ended December 31, 2011

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	32,000	32,000	38,548	6,548
License and Permits	3,200	3,200	150	(3,050)
Intergovernmental	48,250	48,250	49,071	821
Charges for Services	-	-	896	896
Interest Earnings	125	125	107	(18)
Miscellaneous	-	-	843	843
Total Revenues	<u>83,575</u>	<u>83,575</u>	<u>89,615</u>	<u>6,040</u>
Expenditures:				
Current				
Transportation	202,600	202,600	148,483	54,117
Mental and Physical Health	200	200	204	(4)
Capitalized Expenditures	24,500	24,500	25,253	(753)
Debt Service				
Principal Retirement	-	-	-	-
Interest/Fiscal Charges	-	-	-	-
Total Expenditures	<u>227,300</u>	<u>227,300</u>	<u>173,940</u>	<u>53,360</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(143,725)	(143,725)	(84,325)	59,400
Other Financing Sources (Uses):				
Transfers In	71,000	79,000	79,000	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>71,000</u>	<u>79,000</u>	<u>79,000</u>	<u>-</u>
Net Change in Fund Balance	(72,725)	(64,725)	(5,325)	59,400
Fund Balances at Beginning of Year	110,044	110,044	110,044	-
Prior Period Adjustment (Note 17)	-	-	7,985	-
Fund Balances at End of Year	<u>\$ 37,319</u>	<u>\$ 45,319</u>	<u>\$ 112,704</u>	<u>\$ 59,400</u>

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

CITY OF STEVENSON, WASHINGTON
 Tourism Promotion and Development Special Revenue Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (GAAP Basis) and Actual
 For the Fiscal Year Ended December 31, 2012

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		
Revenues:				
Sales and Use Taxes	\$ 295,000	\$ 295,000	\$ 310,828	\$ 15,828
Interest Earnings	2,114	2,114	2,559	445
Total Revenues	297,114	297,114	313,387	16,273
Expenditures:				
Current:				
Culture and Recreation	357,114	357,114	333,952	23,162
Debt Service:				
Principal	-	-	-	-
Interest/Fiscal Charges	-	-	-	-
Capital Outlay	640,000	640,000	2,064	637,936
Total Expenditures	997,114	997,114	336,016	661,098
Excess (Deficiency) of Revenues Over (Under) Expenditures	(700,000)	(700,000)	(22,629)	677,371
Other Financing Sources (Uses):				
Net Change in Fund Balance	(700,000)	(700,000)	(22,629)	677,371
Fund Balances at Beginning of Year	805,194	805,194	805,194	-
Fund Balances at End of Year	\$ 105,194	\$ 105,194	\$ 782,565	\$ 677,371

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

CITY OF STEVENSON, WASHINGTON
 Tourism Promotion and Development Special Revenue Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (GAAP Basis) and Actual
 For the Fiscal Year Ended December 31, 2011

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		
Revenues:				
Sales and Use Taxes	\$ 283,500	\$ 283,500	\$ 318,303	\$ 34,803
Interest Earnings	3,080	3,080	3,316	236
Total Revenues	<u>286,580</u>	<u>286,580</u>	<u>321,619</u>	<u>35,039</u>
Expenditures:				
Current:				
Culture and Recreation	398,080	398,080	361,646	36,434
Capitalized Expenditures	120,000	63,500	-	63,500
Total Expenditures	<u>518,080</u>	<u>461,580</u>	<u>361,646</u>	<u>99,934</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(231,500)	(175,000)	(40,027)	134,973
Other Financing Sources (Uses):				
Reserves for capital facility	200,000	200,000	-	(200,000)
Transfers In	-	-	-	-
Transfers Out	-	56,500	(56,500)	(113,000)
Total Other Financing Sources and Uses	<u>200,000</u>	<u>256,500</u>	<u>(56,500)</u>	<u>(313,000)</u>
Net Change in Fund Balance	(31,500)	81,500	(96,527)	(178,027)
Fund Balances at Beginning of Year	870,213	870,213	870,213	870,213
Prior Period Adjustment (Note 17)	-	-	31,508	31,508
Fund Balances at End of Year	<u>\$ 838,713</u>	<u>\$ 951,713</u>	<u>\$ 805,194</u>	<u>\$ 723,694</u>

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

CITY OF STEVENSON, WASHINGTON

Proprietary Funds
Statement of Net Position
December 31, 2012

	(Major Fund) Enterprise Fund Water & Sewer	(Non Major Fund) Internal Service Fund
Assets:		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 515,332	\$ 82,010
Receivables (net)		
Accounts	77,743	-
Interest	505	7
Due from Other Governmental Units - Grants	-	196
Inventory	31,095	-
Restricted Assets:		
Cash and Cash Equivalents	409,290	811
Total Current Assets	<u>1,033,964</u>	<u>83,024</u>
<i>Non-Current Assets:</i>		
Land	146,356	-
Construction Work in Progress	23,817	-
Buildings	448,685	-
Equipment	200,294	184,214
Intangibles	19,433	-
Improvements Other than Buildings	6,349,885	-
Total non-current assets	<u>7,188,470</u>	<u>184,214</u>
Total Assets	<u><u>8,222,434</u></u>	<u><u>267,238</u></u>
Liabilities and Net Assets		
<i>Current Liabilities:</i>		
Accounts Payable	20,730	1,642
Accrued Employee Benefits	18,328	1,110
Insurance accruals	2,760	3,600
Bonds, Notes and Loans Payable-Current	23,273	2,509
Interfund advances due	8,456	-
Total Current Liabilities	<u>73,547</u>	<u>8,861</u>
<i>Non Current Liabilities:</i>		
Bonds, Notes and Loan Payable (Net)	302,554	14,233
Total Non Current Liabilities	<u>302,554</u>	<u>14,233</u>
Total Liabilities	<u><u>376,101</u></u>	<u><u>23,093</u></u>
<i>Net Position:</i>		
Net Investment in Capital Assets	6,854,187	167,473
Restricted for Capital Purposes	396,839	-
Restricted for Debt Service	12,451	811
Unrestricted	582,856	75,861
Total Net Position	<u>7,846,333</u>	<u>244,145</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(16,085)	
Net Position	<u><u>\$ 7,830,248</u></u>	

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

CITY OF STEVENSON, WASHINGTON

Proprietary Funds
Statement of Net Position
December 31, 2011

	(Major Fund) Enterprise Fund Water & Sewer	(Non Major Fund) Internal Service Fund
Assets:		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 179,060	\$ 30,753
Cash / Insurance, Fiscal agent	3,680	4,720
Investments	222,000	51,000
Receivables (net):		
Accounts	74,166	-
Interest	302	16
Due from Other Governmental Units - Grants	-	149
Inventory	35,487	-
Restricted Assets:		
Cash and Cash Equivalents	25,549	811
Investments	372,000	-
Total Current Assets	<u>912,244</u>	<u>87,449</u>
<i>Non-Current Assets:</i>		
Land	146,356	-
Construction Work in Progress	98,772	-
Buildings	453,990	-
Equipment	223,723	185,651
Improvements Other than Buildings	6,337,246	-
Total Non-Current Assets	<u>7,260,087</u>	<u>185,651</u>
Total Assets	<u><u>8,172,331</u></u>	<u><u>273,100</u></u>
Liabilities and Net Position		
<i>Current Liabilities:</i>		
Accounts Payable	6,208	1,431
Interest Payable (PWTF & RDA Loan)	873	210
Accrued Employee Benefits	17,743	876
Insurance accruals	3,680	4,720
Bonds, Notes and Loans Payable-Current	23,273	2,403
Interfund advances due	9,321	-
Total Current Liabilities	<u>61,098</u>	<u>9,640</u>
<i>Long-term Liabilities:</i>		
Advances from Other Funds	8,456	-
Bonds, Notes and Loan Payable (Net)	325,827	16,788
Total Non-Current Liabilities	<u>334,283</u>	<u>16,788</u>
Total Liabilities	<u>395,381</u>	<u>26,428</u>
<i>Net Position:</i>		
Net Investment in Capital Assets	6,893,210	166,460
Restricted for Capital Purposes	385,039	-
Restricted for Debt Service	12,509	811
Unrestricted	486,192	79,401
Total Net Position	<u>7,776,950</u>	<u>246,672</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>(7,724)</u>	
Net Position	\$ <u><u>7,769,226</u></u>	

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

CITY OF STEVENSON, WASHINGTON
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended December 31, 2012

	(Major Fund) Enterprise Fund Water & Sewer	(Non Major Fund) Internal Service Fund
Operating Revenues		
Charge for Services	\$ 824,620	\$ 104,080
Operating Grant (FEMA)	1,275	-
Total Operating Revenues	<u>825,895</u>	<u>104,080</u>
Operating Expenses		
Operations		
Taxes	32,689	-
Maintenance	44,433	75,203
General Operations	255,300	-
Contracted Services	106,372	-
Customer Service & Marketing	128,763	-
Insurance Claims and expenses	7,164	13,698
Depreciation, Amortization, Depletion	202,338	26,821
Total Operating Expenses	<u>777,059</u>	<u>115,721</u>
Operating Income (loss)	48,836	(11,641)
Nonoperating Revenues (Expenses)		
Interest Earnings	1,572	(813)
Miscellaneous Revenue (Expense)	624	141
Interest and Fiscal Charges	(2,064)	79
Gains /Losses on Capital Assets	-	9,659
Total Nonoperating Revenues (Expenses)	<u>132</u>	<u>9,066</u>
Income (Loss) before Contributions and Transfers	48,968	(2,575)
Capital Contributions	20,412	-
Transfers In (out)	-	-
Change in Net Position - before Extraordinary Items	69,380	(2,575)
Special Items	-	-
Change In Net Position	<u>69,380</u>	<u>(2,575)</u>
Total Net Position at Beginning of Year	7,772,841	246,673
Prior Period Adjustment (see Note 16)	<u>(3,617)</u>	<u>46</u>
Total Net Position at End of Year	7,838,605	\$ 244,144
Reconciliation to Government wide, recognizing Internal Service	<u>(8,357)</u>	
Reconciled Net Position	<u>\$ 7,830,248</u>	
Change in Net Position of Business Type Activities	<u>\$ 61,023</u>	

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

CITY OF STEVENSON, WASHINGTON

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Position For the Fiscal Year Ended December 31, 2011

	<u>(Major Fund) Enterprise Fund Water & Sewer</u>	<u>(Non Major Fund) Internal Service Fund</u>
Operating Revenues		
Charge for Services	\$ 780,133	\$ 104,926
Miscellaneous	-	-
Total Operating Revenues	<u>780,133</u>	<u>104,926</u>
Operating Expenses		
Operations		
General Operations	290,277	-
Contracted Services	97,343	-
Maintenance	66,098	67,289
Customer Service & Marketing	88,680	-
General Administration	42,105	-
Taxes	30,778	-
Insurance Claims and expenses	11,446	16,883
Depreciation, Amortization, Depletion	193,864	26,824
Total Operating Expenses	<u>820,591</u>	<u>110,996</u>
Operating Income (loss)	(40,458)	(6,070)
Nonoperating Revenues (Expenses)		
Interest Earnings	1,353	107
Interest and Fiscal Charges	(2,363)	(915)
Miscellaneous Revenue (Expense)	2,335	2,455
Total Nonoperating Revenues (Expenses)	<u>1,325</u>	<u>1,647</u>
Income (Loss) before Contributions and Transfers	(39,133)	(4,423)
Capital Contributions	14,600	-
Transfers In (out)	-	-
Change in Net Position - before Extraordinary Items	<u>(24,533)</u>	<u>(4,423)</u>
Special Items	-	-
Increase (Decrease) in Net Position	<u>(24,533)</u>	<u>(4,423)</u>
Total Net Position at Beginning of Year	7,793,266	251,096
Prior Period Adjustment (see Note 16)	<u>4,108</u>	
Total Net Position at End of Year before Int Serv reconciliation	7,772,841	<u>\$ 246,673</u>
Reconciliation to Government wide, recognizing Internal Service	<u>(3,615)</u>	
Reconciled Net Position	<u>\$ 7,769,226</u>	
Change in Net Position of Business Type Activities	<u>\$ (28,148)</u>	

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

CITY OF STEVENSON, WASHINGTON

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended December 31, 2012

	(Major Fund) Enterprise Fund Water & Sewer	(Non-Major Fund) Internal Service Fund
Cash Flows from Operating Activities:		
Cash Received from Customers-external	\$ 821,043	\$ 2,380
Cash Received/Paid - Internal	(46,607)	97,296
Other operating cash receipts	624	141
Cash Payments to Suppliers	(213,037)	(49,561)
Cash Payments to Employees	(296,451)	(40,198)
Net Cash Provided by Operating Activities	<u>265,572</u>	<u>10,058</u>
Cash Flows from Noncapital Financing Activities:		
Operating Transfers - In/Out	-	-
Operating Grant	1,275	4,357
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,275</u>	<u>4,357</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Grant and/or loan	20,413	9,659
Acquisition and Construction of Capital Assets	(130,718)	(25,384)
Principal Paid on Bonds and Other Long-Term Obligations	(32,594)	(2,403)
Interest Paid on Revenue Bonds and Other Long-Term Debt	(2,984)	(840)
Net Cash Provided for Capital and Related Financing Activities	<u>(145,883)</u>	<u>(18,967)</u>
Cash Flows from Investing Activities:		
Interest on Investments	1,370	88
Purchase of Investment Securities	(140,000)	1,000
Proceeds from Sale and Maturities of Investment Securities	84,000	15,000
Net Cash Used by Investing Activities	<u>(54,630)</u>	<u>16,088</u>
Net Increase (Decrease) in Cash and Cash Equivalents	66,334	11,536
Cash and Cash Equivalents at Beginning of Year	208,289	36,284
Cash and Cash Equivalents at End of Year	\$ <u>274,623</u>	\$ <u>47,820</u>
Cash and Cash Equivalents	240,572	47,010
Restricted Cash and Cash Equivalents	34,051	811
Total Cash and Cash Equivalents	\$ <u>274,623</u>	\$ <u>47,820</u>

The notes to the financial statement are an integral part of this statement.

CITY OF STEVENSON, WASHINGTON
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2012

	(Major Fund) Enterprise Fund Water & Sewer	(Non Major Fund) Internal Service Fund
Reconciliation of Operating Income (Loss) to Net		
Cash Used by Operating Activities:		
Net Operating Income (Loss)	\$ 48,836	\$ (11,641)
Adjustments to Reconcile Net		
Operating Income (Loss) to Net		
Cash Provided by Operations:		
Depreciation Expense	202,338	26,821
(Increase) Decrease in Receivables	(3,577)	(48)
(Increase) Decrease in Inventories	4,392	-
Increase (Decrease) in Current Payables	13,765	(27)
Increase (Decrease) in Accrued Employee Benefits	586	(235)
(Increase) Decrease in Special Assessment Receivable	-	-
Increase (Decrease) in Deferred Lease	-	-
Increase (Decrease) in customer deposits		
Other Payment related to Non-Operating Activities		24
Receipt of Non-Operating Revenues	(202)	-
Receipt of Grant Operating revenues	(1,275)	(4,357)
Prepaid insurance	59	(620)
Increase (Decrease) in Other Incomes	27	141
Receipt of Miscellaneous Revenues	624	-
Total Adjustments	216,737	21,699
Net Cash Provided by Operating Activities	\$ 265,572	\$ 10,058
Noncash Investing, Financing and Capital Activities		
Capital Assets Donated	\$ -	\$ -

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

CITY OF STEVENSON, WASHINGTON

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended December 31, 2011

	(Major Fund) Enterprise Fund Water & Sewer	(Non Major Fund) Internal Service Fund
	<u> </u>	<u> </u>
Cash Flows from Operating Activities:		
Cash Received from Customers-external	\$ 776,242	\$ 2,606
Cash Received - Internal	-	102,698
Cash Payments to Suppliers	(284,610)	(48,532)
Cash Payments to Employees	(334,105)	(34,420)
Net Cash Provided by Operating Activities	<u>157,527</u>	<u>22,352</u>
Cash Flows from Noncapital Financing Activities:		
Operating Transfers - In/Out	-	-
Operating Grant	11,033	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>11,033</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Capital Grant and/or loan	14,600	-
Acquisition and Construction of Capital Assets	(61,963)	(1,769)
Principal Paid on Bonds and Other Long-Term Obligations	(23,273)	(2,305)
Interest Paid on Revenue Bonds and Other Long-Term Debt	(1,861)	(938)
Principal Paid on Interfund Loan	(9,138)	-
Interest Paid on Interfund Loan	(559)	-
Capital Contributed-Paid in cash	982	-
Proceeds from Sale of Property/Other	-	2,987
Net Cash Provided for Capital and Related Financing Activities	<u>(81,212)</u>	<u>(2,025)</u>
Cash Flows from Investing Activities:		
Interest on Investments	1,314	116
Purchase of Investment Securities	(84,000)	(5,000)
Proceeds from Sale and Maturities of Investment Securities	24,000	-
Net Cash Used by Investing Activities	<u>(58,686)</u>	<u>(4,884)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,662	15,443
Cash and Cash Equivalents at Beginning of Year	<u>179,627</u>	<u>20,841</u>
Cash and Cash Equivalents at End of Year	\$ <u>208,289</u>	\$ <u>36,284</u>
Cash and Cash Equivalents	182,740	35,473
Restricted Cash and Cash Equivalents	<u>25,549</u>	<u>811</u>
Total Cash and Cash Equivalents	\$ <u>208,289</u>	\$ <u>36,284</u>

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

CITY OF STEVENSON, WASHINGTON

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended December 31, 2011

	<u>(Major Fund)</u> <u>Enterprise Fund</u> <u>Water & Sewer</u>	<u>(Non Major Fund)</u> <u>Internal Service</u> <u>Fund</u>
Reconciliation of Operating Income (Loss) to Net		
Cash Used by Operating Activities:		
Net Operating Income (Loss)	\$ (30,889)	\$ (6,070)
Adjustments to Reconcile Net Operating Income (Loss) to		
Net Cash Provided by Operations:		
Depreciation Expense	193,864	26,824
(Increase) Decrease in Receivables	(3,911)	379
(Increase) Decrease in Inventories	(6,017)	-
Increase (Decrease) in Current Payables	(3,707)	(238)
Increase (Decrease) in Accrued Employee Benefits	8,127	237
Prepaid insurance	40	1,220
Increase (Decrease) in Other Incomes	20	
Total Adjustments	<u>188,416</u>	<u>28,422</u>
Net Cash Provided by Operating Activities	\$ <u>157,527</u>	\$ <u>22,352</u>
Noncash Investing, Financing and Capital Activities		
Capital Assets Donated	\$ <u>-</u>	\$ <u>-</u>

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

CITY OF STEVENSON

NOTES TO FINANCIAL STATEMENTS

January 1, 2011 through December 31, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Stevenson have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Stevenson was incorporated on December 2, 1907 with the first official council convened on January 14, 1908 and operates under the laws of the State of Washington applicable to a non-charter code city with a mayor-council form of government. As required by the generally accepted accounting principles the financial statements present the City of Stevenson – the primary government. There are no component units.

The City of Stevenson is a general-purpose government and provides police, fire, water supply-treatment-distribution, sewage collection-treatment, street maintenance, planning and zoning, parks, judicial services, and general administration. The City's combined financial statements include the financial position and results of operations of all funds and account groups that are controlled by or dependent on the City.

B. Government-Wide and Fund Financial Statements

The accounts of the City of Stevenson are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The City of Stevenson's resources are allocated to and accounted for in individual funds depending on what they are to be spent for and how they are controlled. The individual funds are summarized by fund type in the financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to not to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2)

grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds – even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available only if there is an expectation of collection within 60 days of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports three major governmental funds in 2012 and one additional major governmental fund, Capital Project Fund, in 2011.

Current Expense Fund

This fund is the general operating fund of the City. It accounts for all financial resources and transactions except those required to be accounted for and reported in another fund.

Street Fund

This fund accounts for accounts for the transportation needs of the City and relies on revenues from the gas tax (restricted for transportation purposes), the second half percent sales tax (committed by council action), liquor profit tax, and a utility tax on electricity.

Tourism Promotion Fund (Motel/Hotel Fund)

This fund accounts for revenues derived from the State administered 2% special excise tax (credited against the State's portion of the sales tax on the furnishing of transient lodging and an additional City lodging tax of 2%) and is restricted to fund payment for promotional activities to attract visitors and for the purposes of acquisition, construction or operation of tourist facilities, stadium facilities, convention center facilities, performing arts center facilities and/or visual arts center facilities.

And, the City reports four non-major government funds, all within the Capital Funds in 2011 and 2012.

The capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities or other capital assets. There is one permanent Capital Fund – the Capital Improvement Fund – funded by real estate excise tax receipts, restricted revenue. The remaining Capital Funds are specific project related funds whose life matches the lifetime of that specific project. Those special funds include Bridging Byways Trail, Joint Emergency Facilities, Columbia TIB and Gateway Park Project, again funding is principally from restricted and committed sources.

The City reports the one major **proprietary fund**:

The Water and Sewer Fund derives its revenues from the sale of water and charges for sewer collection together with charges for installations, interest charges and income from occasional repairs, additions or maintenance.

The City reports the following additional fund and account types:

Internal service funds that account for city operations that provide goods or services to other departments or funds of the city or to other governmental units on a cost-reimbursement basis.

Currently these include the Equipment Service Fund that provides for in-town transportation and earth-moving equipment needs with revenues derived from departmental service charges for use of the equipment; and, the Unemployment Fund provides funds to meet the City's responsibility for unemployment insurance costs under the Washington State Unemployment Program.

As a general rule the effect of the inter-fund activity has been eliminated for the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City of Stevenson's Water/Sewer Funds are the revenues derived from the distribution of water and collection and treatment of sewer. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the general and special revenue funds on the modified accrual basis of accounting. Capital Project Budgets are adopted at the level of individual project on an annual basis. Annual appropriated budgets are adopted at the level of the fund, and the budgets constitute the legal authority for expenditures at that level. Appropriations for Governmental Fund Types lapse at year-end.

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Proprietary funds are budgeted on the accrual basis, using the statement of changes in financial position and are for guidance only. Subsidiary revenue and expenditures ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

2. Budget Procedures

The City's budget procedures are mandated by RCW 35A.33. The steps in the budget process are as follows:

1. Prior to the first of November the City Clerk submits to the City Council a proposed budget for the fiscal year commencing the following January 1. This budget is based on priorities established by the council and balanced with revenue estimates made by the City Clerk.
2. Public hearings are conducted at City Hall to obtain taxpayer comments during October through December.
3. The Council makes its final adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
4. Within thirty days the final budget is available to the public. The City Council adopted the FY'12 Budget by Ordinance No. 2011-1056 on December 15, 2011 and adopted the FY'2011 Budget by Ordinance No. 2010-1042 on December 16, 2010.

3. Amending the Budget

The City Administrator is authorized to transfer budgeted amounts between 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 Council.

When the City determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one or more than the majority after holding public hearing. The 2012 Budget was amended on September 20, 2012 by Ordinance No. 2012-1062. The budget amounts shown in the financial statements are the final authorized amounts.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. Assets, Liabilities and Net Assets and/or Equity

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2012 the City Treasurer was holding investments valued at \$2,668,103 and with another \$815,653 held in cash accounts. At December 31, 2011 the City Treasurer was holding investment valued at \$2,723,098.07 on December 31, 2011 with another \$579,151.98 held in cash accounts. (All investments are classified on the balance sheet as investments in various funds recognizing the difference in their liquidity from cash. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payment for services rendered or timing issues with reinvestments. According to banking statements the annual average cash balances maintained during the years was approximately \$708,940 in December 31, 2012 compared to \$466,109.62 in 2011.

For purposes of the statement of cash flows, the City considers all highly liquid investments including restricted assets with a maturity of three months or less when purchased to be investments on Schedule 12.

2. Investments (See Note 4 Deposits and Investments).

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 5 Property Taxes). Accrued interest receivable consists of amounts earned and recorded for those investments held by the City at the close of the fiscal year.

Special assessments levied by the city are recognized when levied; and become liens against the property when delinquent. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2012 there were no outstanding special assessments.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

4. Amounts Due to and from Other Funds and Other Governments Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “inter-fund loans receivable/payable” or “advances to/from other funds”. All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”. A separate schedule of inter-fund loans receivable and payable is furnished in Note 15.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary. The ‘First in – First out (FIFO) valuation method is used to value the inventory. A physical inventory is taken at year-end.

Inventories in proprietary funds are valued by FIFO method.

6. Restricted Net Position

These accounts contain resources for construction and debt service including current and delinquent special assessments receivable, in enterprise funds. The current portions of related liabilities are shown as Current Payables from Restricted Assets. Specific debt service reserve requirements are described in Note 10.

DEBT

Restricted positions of the enterprise funds set aside for debt are composed of the following:

	<u>2012</u>	<u>2011</u>
Cash and Investments – Debt Service	\$ 12,451.28	\$ 12,509
Cash and Investments – Construction	<u>\$396,839.17</u>	<u>\$385,039</u>
	\$409,290.45	397,548

Restrict Positions (IS) - Gov Funds restricted for debt \$811 for both years

OTHER

Restricted fund balances of the Government Funds are composed of the following:

	<u>2012</u>	<u>2011</u>
Current Exp.	\$0	\$0
Street Fund	\$0	\$ 41,491
Tourism Fund	\$782,566	\$805,194
Capital Funds	<u>\$264,666</u>	<u>\$305,778</u>
TOTAL	\$1,047,232	\$1,152,463

Assigned Fund Balances are as follows:

Current Exp (Fire Dept)	\$200,000	\$175,000
Street Fund	\$188,754	\$ 66,743
Other Gov Funds	<u>\$141,657</u>	<u>\$ 87,990</u>
TOTAL	\$530,411	\$329,733

7. Capital Assets and Depreciation (See Note 6)

A. General Policies

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed and completed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year included:

	<u>2012</u>	<u>2011</u>
Water (PWTF)	\$1,687.34	\$1,803.70
Equip Service (RDA)	\$ 813.28	\$ 915.16
Internal Loan (Pd to Tourism)		
CE	\$ 838.18	\$1,244.98
WA	<u>\$ 376.57</u>	<u>\$ 559.34</u>
TOTAL	\$3,715.37	\$4,523.18

The City incurred no **new** interest expense during the current fiscal year for capital assets and improvements including capital leases for **new** construction.

The City has acquired certain assets with funding provided by federal and state financial assistance programs. Depending on the term of the agreements involved, the federal government could retain an equity interest in these assets. However, the City has sufficient legal interest to accomplish the purpose for which the assets were acquired, and has included such assets within the applicable account group or fund.

Structures, plant, and equipment, is depreciated using the straight-line method over useful life calculations set by staff, engineering and the Fixed Asset Policy. Those lives are listed in the Fixed Asset Fund Depreciation Schedules or the Proprietary Depreciation Schedules.

8. Investments (See Note 4)

9. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. Vacation pay, which may be accumulated up to a maximum of 30 days is payable upon resignation, retirement or death. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements.

The city pays sick leave out at 25% of unused balance upon retirement only. Sick leave may be accumulated up to 1,440 hours. The city calculates this liability at the vesting method. As such, the city has assumed that the point in employment that it becomes probable that payment for an employee's unused sick leave will vest after 25 years of service under PERS 2 and five years from retirement. Two employees reached this marker in 2010; their combined amount was \$24,303.61 at the end of 2012. Over the past thirty five years only two employees have met the requirements to be eligible for the accrued sick leave. Sick leave for the two eligible employees is accrued in the government-wide financial statements only.

10. Other Accrued Liabilities

These accounts consist of accrued wages, accrued employee benefits and payments to vendors. The City's payroll period ends and is generated on the last day of the month and therefore is not necessary to be included in the payable total.

11. Long-Term Debt (See Note 12)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net positions. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt..

12. Deferred Revenues

This account includes amounts recognized as receivables but normally does not include revenues in governmental funds because the revenue recognition criteria has not been met; the ability to liquidate liabilities of the current period. Delinquent property taxes typically represent the City's major deferred revenue.

13. Fund balance classifications

Assets in excess of liabilities are reported as fund balances and are segregated into separate classifications indicating the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent.

Non-spendable: Fund balance is reported as non-spendable when the resources cannot be spent because they are either in a non-spendable form or are legally or contractually required to be maintained intact. Resources in non--spendable form include deferred charges, petty cash accounts and revolving funds.

Restricted: Fund balance is reported as *restricted* when the constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: Fund balance is reported as *committed* when the City Council passes an ordinance that places specific constraints on how the resources may be used. The City Council can modify or rescind the ordinance at any time through passage of an additional ordinance.

Assigned: Fund balance is reported as *assigned* when the City Council assign amounts for a specific purpose. The City's policy establishing this authorization is to adopt a resolution or simply identify the assignment in the budget.

Unassigned: Fund balance reported as unassigned represent net resources in excess of non-spendable, restricted, committed and assigned fund balance. Only the general fund has unassigned fund balance.

When both restricted and unrestricted resources are available, the City's policy is to use restricted resources first, and then unrestricted resources, as they are needed. When committed, assigned or unassigned amounts are available, the City's policy is to use committed resources first, assigned secondly and finally unassigned resources.

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

FY'2011

- Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position.

Amounts reported for governmental activities in the statement of net position are different because of the following changes:

Government Fund balances as stated on the Balance Sheet:	\$2,483,560
• Capital assets used in governmental activities are not financial resources	\$28,198,382
• Long-term assets not available for current period use (deferred revenue)	\$50,079
• Compensated Absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<\$24,701>
• Internal Service funds included in governmental activities (less reconciliation with business activities)	\$246,671
Adjust for: Business reconciliation:	<u>\$3,615</u>
TOTAL NET POSITION-GOVERNMENTAL FUNDS	<u>\$30,957,606</u>

- Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

There was a net change of <22,481> in fund balances of all government funds. These amounts differed from the Statement of Activities due to the following changes:

	<u>\$<22,481></u>
• Restatement of capital outlays and depreciation	\$<159,848>
• Revenues that do not provide current financial resources	<61,301>
• Earned but not available revenues	57,105
• Expenses reported but not requiring current financial resources adjusted with prior year	<24,701> 33,811
• Activities of Internal Service Funds with Business Activities	<808>
CHANGES IN NET POSITION – GOVERNMENTAL FUNDS	<u><\$178,223></u>

FY'2012

- Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position.

Amounts reported for governmental activities in the statement of net position are different because of the following changes:

Government Fund balances as stated on the Balance Sheet:	\$2,599,620
• Capital assets used in governmental activities are not financial resources	\$27,867,947
• Long-term assets not available for current period use	\$50,438
• Internal Service funds consolidation	260,229
• Expenses reported in the statement of activities that do not require use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	< 36,030>
TOTAL NET POSITION-GOVERNMENTAL FUNDS	30,742,204

- Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

There was a net change of **\$116,059** in fund balances of all government funds. These amounts differed from the Statement of Activities due to the following changes:

NET CHANGES IN GOVERNMENTAL FUND BALANCES	116,059
• Restatement of capital outlays	<330,385>
• Revenues that do not provide current financial resources (Def Rev).	<50,130>
• Revenues earned but not available	50,438
• Expenses not requiring use of current financial resources	<36,031 >
• Prior period expenses requiring use of current financial resources	28,859
• Activities of Internal Service Funds	<u>5,788</u>
CHANGES IN NET POSITION – GOVERNMENTAL FUNDS:	<u><215,402></u>

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-

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

NOTE 4: DEPOSITS AND INVESTMENTS

The City’s deposits and certificates of deposit are entirely covered by federal depository insurance FDIC or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The City was not holding investments as an agent for other local governments, two of the investments being held did have a maturity and there was no custodial risk.

As of December 31, 2011 the City had the following investments:

City Funds	Maturities	Fair Value
Certificates of Deposit	5/12 @ 100K, 3/13 @ \$100K	\$ 200,000.00
Time Deposits		3,098.07
State Pool		2,520,000.00
Total		\$ 2,723,098.07

As of December 31, 2012 the City had the following investments:

City Funds	Maturities	Fair Values
Certificates of Deposit	3/31/2013 (both)	245,000.00
Time Dep/Money Mark	Not applicable	3,103.48
State Pool	Not applicable	2,420,000.00
TOTAL		2,668,103.48

Interest Rate Risk-In accordance with the investment policy recommended by the Washington State Treasurer the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months. The Washington State LGIP manages its investments consistent with the Securities and Exchange Commission’s Rule 2a-7 of the Investment Company Act of 1940, i.e. money market funds.

Credit Risk – The City limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government sponsored corporations, bankers’ acceptances, commercial paper, deposits with qualified public depositaries, or obligations of the State or Washington or its political subdivision. Investments in bankers acceptances or commercial paper must be rated with the highest short-term credit rating of any two nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). As of December 31, 2012 the City’s investment in the State Treasurer’s investment pool was unrated.

Concentration of credit risk – The City’s investment policy does not allow for an investment in any one issuer that is in excess of five percent of the government’s total investments. (This requirement does not include the City’s participation in the State Pool or federally insured Certificates of Deposit).

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Currently the City’s accounts are not exposed to custodial credit risk.

As required by state law, all investments of the City funds (except as noted below) are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer’s Investment Pool, bankers’ acceptances or certificates of deposit with Washington State banks and saving and loan institutions. All temporary investments are stated at fair value.

The City did not participate in any securities lending transactions.

NOTE 5: PROPERTY TAXES

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

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installment payments is due
May 31	Assess value of property established for next year’s levy at 100 percent of market value
October 31	Second installment is due

Property tax revenues are recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as deferred revenue and recognized as revenue of the period to which it applies. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The city is permitted to levy up to \$3.10 per 1,000 assessed valuations for general governmental services under RCW 27.12.390.

The City’s regular levy for FY’2011 (Ordinance No. 2010-1042) passed by Council action (November 18, 2010) was 1.9807 per \$1,000 on an assessed valuation of \$202,716,931 for a total levy of \$401,519.54 after State Assessment adjustments.

The City’s levy (Ordinance No.2011-1054) for FY’2012 (passed by Council action October 20, 2011) was 1.999758 per \$1,000 on an assessed valuation of \$203,943,382 by Skamania County Assessor for a total projected collections as revised by the Skamania County Assessor for a total levy of \$407,837.46.

The City’s regular levy for FY’2013 (Ordinance No. 2012-1063) passed by Council action (November 15, 2012) was 2.053067 per \$1,000 on an assessed valuation of \$201,430,758 for a total levy of \$443,550 after State Assessment adjustments.

Washington State Constitution and Washington State law, RCW 84.55.010, limits the rate.

NOTE 6: CAPITAL ASSETS

A. Capital Assets

Major expenditures for capital assets, including capital leases and major repairs that increase the useful life are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred. Art pieces are expected to be maintained or enhanced and thus, are not depreciated. Capital assets are valued at historical cost (or estimated cost, where historical cost is not known/or estimated market value).

The capital assets activity for the year ended December 31, 2011 is described below:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land (Prior period adjustment made, Note 22)	11,623,070	\$ 0	\$ 0	\$ 11,623,070
Art Pieces	25,787	0	0	25,787
Construction in progress	220,670	173,871	73,607	320,934
Total capital assets, not being depreciated	<u>11,869,527</u>	<u>173,871</u>	<u>73,607</u>	<u>11,969,791</u>
Capital assets, being depreciated/depleted:				
Buildings	225,993	4,906	0	230,899
Improvements other than buildings	624,050		*	624,050
Equipment	875,252	11,583		886,835
Intangibles	19,450	0	0	19,450
Infrastructure	21,633,220	73,606		21,706,826
Total capital assets being depreciated	<u>23,377,965</u>	<u>90,095</u>	<u>0</u>	<u>23,468,060</u>
Less accumulated depreciation for:				
Buildings	88,332	5,609		93,941
Improvements other than buildings	209,828	15,472	*	225,301
Equipment	482,881	54,627		537,508
Intangibles	3,890	3,890	0	7,780
Infrastructure	5,893,626	295,666		6,189,292
Total accumulated depreciation	<u>6,678,557</u>	<u>375,264</u>	<u>0</u>	<u>7,053,822</u>
Total capital assets, being depreciated, net	16,699,408	(285,170)	0	16,414,238
Governmental activities capital assets, net	<u>\$ 28,568,935</u>	<u>\$ (111,298)</u>	<u>\$ 73,607</u>	<u>\$ 28,384,029</u>
Business type Assets				
Capital assets, not being depreciated				
Land	\$ 146,356	\$ 0	\$ 0	\$ 146,356
Construction in progress	140,977	51,066	93,272	98,771
Total capital assets, not being depreciated	<u>287,333</u>	<u>51,066</u>	<u>93,272</u>	<u>245,127</u>
Capital assets, being depreciated/depleted:				
Buildings	679,290	0	0	679,290
Equipment	1,070,270	5,791		1,076,061
Intangible assets	8,942			8,942
Improvements other than buildings	8,372,552	98,434		8,470,986
Total capital assets being depreciated	<u>10,131,054</u>	<u>104,225</u>	<u>0</u>	<u>10,235,279</u>
Less accumulated depreciation for:				
Buildings	211,562	13,738	0	225,300
Equipment	827,302	25,407		852,709
Intangible Assets	3,392	5,180		8,572
Improvements other than buildings	1,984,200	149,539		2,133,739
Total accumulated depreciation	<u>3,026,456</u>	<u>193,864</u>	<u>0</u>	<u>3,220,320</u>
Total capital assets, being depreciated, net	7,104,598	(89,639)	0	7,014,959
Business type capital assets, net	<u>\$ 7,391,931</u>	<u>\$ (38,573)</u>	<u>\$ 93,272</u>	<u>\$ 7,260,087</u>

The capital assets activity for the year ended December 31, 2012 is described below:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land (Prior period adjustment made, Note 22)	11,623,070	\$ 0	\$ 0	\$ 11,623,070
Art Pieces	25,787	0	0	25,787
Construction in progress	320,934	67,721	306,501	82,154
Total capital assets, not being depreciated	11,969,791	67,721	306,501	11,731,011
Capital assets, being depreciated/depleted:				
Buildings	230,899	8,959	0	239,858
Improvements other than buildings	624,050	135,834	14,475 *	745,410
Equipment	886,835	33,067	21,333	898,569
Intangibles	19,450	1,672	0	21,122
Infrastructure	21,706,826	165,416	30,915	21,841,327
Total capital assets being depreciated	23,468,060	344,948	66,723	23,746,285
Less accumulated depreciation for:				
Buildings	93,941	6,493		100,434
Improvements other than buildings	225,301	21,786	1,151 *	245,937
Equipment <small>(restated equipment service, created intangibles)</small>	537,508	54,933	21,337	571,104
Intangibles	7,780	4,567	0	12,347
Infrastructure	6,189,292	336,936	30,915	6,495,313
Total accumulated depreciation	7,053,822	424,715	53,403	7,425,135
Total capital assets, being depreciated, net	16,414,238	(79,767)	13,320	16,321,150
Governmental activities capital assets, net	\$ 28,384,029	\$ (12,046)	\$ 319,821	\$ 28,052,162
Business type Assets				
Capital assets, not being depreciated				
Land	\$ 146,356	\$ 0	\$ 0	\$ 146,356
Construction in progress	98,771	13,726	88,679	23,817
Total capital assets, not being depreciated	245,127	13,726	88,679	170,173
Capital assets, being depreciated/depleted:				
Buildings	679,290	7,626	0	686,916
Equipment	1,076,061	9,784	663	1,085,182
Intangible assets	8,942	17,460	(663)	27,065
Improvements other than buildings	8,470,986	169,614		8,640,600
Total capital assets being depreciated	10,235,279	204,484	0	10,439,763
Less accumulated depreciation for:				
Buildings	225,300	14,119	1,188	238,231
Equipment	852,709	29,454	(2,725)	884,888
Intangible Assets	8,572	1,789	2,729	7,632
Improvements other than buildings	2,133,739	156,976		2,290,715
Total accumulated depreciation	3,220,320	202,338	1,192	3,421,466
Total capital assets, being depreciated, net	7,014,959	2,146	(1,192)	7,018,297
Business type capital assets, net	\$ 7,260,086	\$ 15,872	\$ 87,487	\$ 7,188,470

There were no easements purchased in 2011 or 2012; software had been treated as equipment in the past and is now being recorded as intangibles.

Capital assets related to governmental activities must be reported separately from those related to business-type activities. The Business type capital assets include both the Water/Sewer Utilities.

Depreciation expense was charged to functions/programs of the primary government as follows (Note this table moves Equipment Service Fund depreciation to Governmental Activities, but does not report by activity):

FY'2011

GOVERNMENTAL ACTIVITIES	
General Government	16,919
Security of Persons & Property	23,106
Physical Environment	0
Economic Environment	0
Transportation	304,496
Culture & Recreation	3,919
Equipment Service Fund (moves to transportation)	26,824
TOTAL DEPRECIATION	\$375,264
BUSINESS-TYPE ACTIVITIES:	
Utilities	\$193,864
TOTAL DEPRECIATION	\$193,864

FY'2012

GOVERNMENTAL ACTIVITIES	
General Government	17,125
Security of Persons & Property	22,990
Physical Environment	0
Economic Environment	0
Transportation	346,576
Culture & Recreation	10,525
Equipment Service Fund (moves to transportation)	26,821
TOTAL DEPRECIATION	\$424,037
BUSINESS-TYPE ACTIVITIES:	
Utilities	\$202,338
TOTAL DEPRECIATION	\$202,338

Construction work in progress was recorded in the proprietary fund at \$23,817. The WIP consists, city staff time on two subdivisions that are idle due to the recession, work on the sewer outfall emergency and work on wastewater shop roof. In the Governmental Funds the WIP also had subdivisions delayed by the recession and two grant funded transportation projects.

At the end of 2012 the City had no construction commitments.

NOTE 7: PENSION PLANS

Substantially all City of Stevenson full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer defined benefit public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR

may be obtained from the Department of Retirement Systems, Administrative Services Division, and P.O. BOX 48380 OLYMPIA, WA. 98504-8380 or downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and No. 50 *Pension disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials, state employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system), employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts, and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost sharing multiple employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and, by either February 28, 2002 for state and higher education employees or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 2, Plan 2/3 and Plan 3. Plan 2 accounts for the defined benefits of plan 2 members. Plan 2/3 accounts for the defined benefits of plan 2 members and the defined benefit portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of the Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the plan 2 or plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.)

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 2 members retiring from inactive status prior to the age of 65 may

also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 2 members may elect to receive an optional COLA amount (based on the Consumer Price Index) capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions

- With a benefit that is reduced by 3 percent for each year before age 65
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006 Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made of a survivor option.

PERS Plan 3 defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The plan 2 monthly benefit amounts are 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

On June 30, 2010 there were 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans at June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Receiving	28,860
Active Plan Members Vested	105,521
Active plan Members Non-vested	51,005
TOTAL	<u>262,285</u>

The PERS system counts have not been updated in their disclosures since this date.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rate for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to continue to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the a Judicial Benefit Multiplier Program in January 2007 , a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution required are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as percentage of current years covered payroll, as of December 31, 2011 and 2012 were as follows:

	PERS PLAN 1	PERS PLAN 2	PERS PLAN 3
2012			
Employer*	7.21% **	7.21% **	7.21% ***
Employee	6.00%	4.64%	***
2011			
Employer	7.25%	7.25%	7.25%
Employee	6.0%	4.64%	***

* The employer rate includes the employer administrative expense fee currently set at 0.16%

** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3

*** Plan 3 defined benefit portion only

****Plan 3 defined benefit portion only variable from 5% to 15%

There are no City members participating in JBM or LEOFF

Both the City and the employees made the required contributions. The City's required contributions for the years ending December 31 were:

	PERS PLAN 1	PERS PLAN 2	PERS PLAN 3
2012	0	\$39,255.54	0
2011	0	\$54,974.08	0
2010	0	\$46,373.79	0
2009	0	\$55,921.25	0

Trust Description. The City is a participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and nature of the medical and other benefit provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy. The Trust provides that contribution requirements of Participating Employer and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts in 2011 and 2012:

AWC HealthFirst® 1000 - 2011

\$751.55 for non-Medicare enrolled retiree coverage

\$765.15 for non-Medicare enrolled spouse coverage

\$410.35for Medicare enrolled retiree coverage

\$415.00 for Medicare enrolled spouse coverage

AWC HealthFirst® 1000 - 2012

\$630.48 for non-Medicare enrolled retiree coverage
\$634.81 for non-Medicare enrolled spouse coverage
\$373.33 for Medicare enrolled retiree coverage
\$365.69 for Medicare enrolled spouse coverage

Law Enforcement Officers' and Fire Retirement System (LEOFF) Plan 1 and 2

City is not currently participating in the LEOFF portion of the State Requirement System.

Volunteer Firemen Relief and Pension Fund

Volunteer Fire Fighter's Relief and Pension Fund System is a cost sharing voluntary multiple employer contributory retirement system which was created by the State of Washington legislature in 1945 Chapter 41.16RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of \$30 per year; employer contributions of \$30 per year; and 40 percent of the Fire Insurance Premium Tax. Members do not earn interest on their contributions; however, they may elect to withdraw their contributions upon termination.

Deferred Compensation Plan

The City of Stevenson offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are with an independent plan administrator. The plans are available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Compensation deferred under the plan and all income attributable to the plan is subject to Federal IRS regulations. The City's rights to this property are subject only to the claims of the City's general creditors until paid to the employee or other beneficiary and are not restricted to the benefit provisions under the plan.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is highly unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Under Nationwide Retirement Solutions held \$48.9 billion dollars in assets on 3/31/10. As of 12/31/11 the City had an account value of \$316,974.57, the remaining amount represents the assets of other jurisdictions participating in the plan. No detailed reports were provided by the Washington State Deferred Plan. Deferred compensation plan investments are recorded at market value, along with the corresponding liability.

NOTE 8 - RISK MANAGEMENT

The City of Stevenson 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 pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling

arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 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. At the end of September 1, 2012 there were 254 members of the and as of September 1, 2012 there are 240 members in the pool.

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 pool acquires liability insurance through **their Administrator, Canfield**, that is subject to a per-occurrence self insured retention of \$100,000. Members are responsible for the first \$1,000 of the deductible portion of each claim, while the pool is responsible for the remaining \$99,000 from self-insured retention. The **insurance carrier covers** insured losses over \$101,000 to the limits of each policy. Since the pool 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 pool also purchases a Stop Loss Policy **with a limit of \$2,545,000 in 2011 and with a limit of \$2,815,000** to cap the total claims paid by the pool in any one year.

Property insurance is subject to a per-occurrence **self insured retention of \$25,000**. Members are responsible for the first **\$1,000 of the deductible** amount of each claim, while the pool is responsible for **\$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 pool self insured retention on this coverage.

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

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2012, were \$1,099,472.

NOTE 9 - SHORT TERM DEBT

The City had no short-term debt at the end of December 31, 2011 or at the end of December 31, 2012.

NOTE 10 – LONG TERM DEBT **General and Revenue**

A. Long Term Debt

The City of Stevenson issues general obligation and revenue bonds to finance the purchase of capital assets and the construction of infrastructure and capital assets. There are no general obligation bonds currently outstanding. Federal Arbitrage does not apply to any of the City's current debts.

The City of Stevenson has borrowed from the Public Works Trust Fund for a major water system upgrade; borrowed from RDA for the purchase of a street sweeper for the Equipment Service Fund and advanced funds from the Tourism Promotion fund for a water line improvement. Proprietary fund revenues are repaying the PWTF loan. Both the Water Utility and the Current Expense Fund are repaying the inter-fund advance. The Internal Service Fund is repaying the RDA Loan.

Revenue Debt

Public Works Trust Fund

The City finalized its loan withdrawal in 2008 to a total of \$437,750. Interest is at 0.5% with the first repayment due in mid 2008 based on a drawdown of \$357,750. The water utility is responsible for repayment. At the end of 2011 the City held \$12,509.43 and in 2012 the City held \$12,451.28 ready to service the Public Works Trust Fund debt. There are no other specific debt reserve requirements. The loan debt service requirements to maturity are as follows:

Payment made in 2011 - \$23,273.39 Balance remaining - 349,100.88
 Payment made in 2012 - \$23,273.39 Balance remaining - 325,827.49

Public Works Trust Fund Debt Schedule 2012

Year Due	Principal	Interest	Total
2013	23,273	1,629	24,902
2014	23,273	1,513	24,786
2015	23,273	1,396	24,669
2016	23,273.	1,280	24,553
2017	23,273.	1,164	24,437.
2018-2022	116,368	4,073	120,441
<u>2023-2026</u>	<u>93,094</u>	<u>1,164</u>	<u>94,258</u>
	325,827	12,219	338,047

Rural Development Administration

The City finalized its loan for the purchase of a used Street Sweeper pledging the income from the Equipment Service Fund to repay the debt. The street sweeper is serving as collateral; there are no other specific debt reserve requirements (Resolution 229). ARRA funding was involved. At the end of 2011 and 2012 the Equipment Service Fund held \$810.75 for debt service. A total of \$23,700 was borrowed with a nine year repayment plan at 4.375% interest per annum; an “overpayment” due to remittance timing is reflected on the 2012 Schedule.

Schedule for 2011

<u>Year</u>	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2011				19,191.23
2012	3,243.00	839.62	2,403.38	16,787.85
2013	3,243.00	734.47	2,508.53	14,279.32
2014	3,243.00	624.72	2,618.28	11,661.04
2015	3,243.00	510.17	2,732.83	8,928.21
2016	3,243.00	390.61	2,852.39	6,075.82
17-18	6,486.00	401.39	6,075.82	-8.79
Total	22,701.00	3,500.98	19,191.23	

Schedule for 2012

<u>Year</u>	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012				16,787.85
correct	46.41	-46.41		16,741.44
2013	3,243.00	734.47	2,508.53	14,279.32
2014	3,243.00	624.72	2,618.28	11,661.04
2015	3,243.00	510.17	2,732.83	8,928.21
2016	3,243.00	390.61	2,852.39	6,075.82
17-18	6,477.21	401.39	6,075.82	-8.79
Total	19,449.21	2,614.95	16,741.44	

Includes correction to posting by USDA

Interfund Loan and Advances from Other Funds

The City is repaying a loan from the Hotel/Motel Fund for the installation of a major water main to satisfy fire flows for an expansion of a large resort/conference center. The City Council has designated the Current Expense, Water, and Capital Improvement Funds as the funds responsible for repayment. A Resolution was adopted in 2004 to address the repayment schedule, which will be budgeted annually. There was an original advance of \$281,000 @ 2% annual interest for a ten year term; \$84,260 was booked against the Water Utility as an Advance from Other Funds. The remainder of the debt is accounted for in the Governmental Activities; repayment will be an obligation of the Current Expense Fund (with possible transfers from the Capital Improvement Fund). Annual payments of \$31,282.75 are made to the Tourism Promotion Fund.

The annual debt service requirements until the inter-fund loan is satisfied are as follows (with a total owing of \$60,737.42 at the end of 2011:

Year	Beginning Bal	Principal Due	Interest Due	Total Paid	Ending Balance
2011					60,737.42
2012	60,737.42	30,068.00	1,214.75	31,282.75	30,669.42
2013	30,669.42	30,669.42	613.39	31,282.81	.00

The annual debt service requirements until the inter-fund loan is satisfied are as follows at the end of 2012:

Year	Beginning Bal	Principal Due	Interest Due	Total Paid	Ending Balance
2012					30,669.42
2013	30,669.42	30,669.42	613.39	31,282.81	

Under the City’s current Personnel Policy the City will be responsible for “**Sick Leave Buyout**” for two staff remembers nearing retirement (two to three years) for a total of \$24,303.61 in 2012. There was none at the end of 2011.

NOTE 11 – LEASES

The City held no operating leases or capital leases on December 31, 2011 nor on December 31, 2012. The City’s practice is to capitalize equipment and facilities obtained by lease purchase or financing lease agreements within the proprietary funds. The liability for these leases and annual amortization requirements would be disclosed in Note 10 Long-Term Debt and the depreciation policies for these assets would be described in Note 6 Assets.

NOTE 12 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2011 the following changes occurred in liabilities:

	Beginning Balance 1/1/11	Additions	Reductions	Ending Balance 12/31/11	Due w/in One Year
<i>Governmental Activities</i>					
Compensated Absences	\$ 13,133	\$ 14,842	\$ 3,274	\$ 23,825	\$ 24,701
<i>Equipment Services</i>					
Compensated Absences	\$ 639	\$ 237	\$ 0	\$ 876	\$ 876
Eq Service RDA Loan	\$ 21,494	\$	\$ 2,303	\$ 19,191	\$ 2,403
<i>Long Term Liabilities</i>	\$ 35,266	\$ 15,074	\$ 5,577	\$ 44,768	
<i>Business Type Activities</i>					
Governmental Loans	\$ 372,375	\$ 0	\$ 23,273	\$ 349,102	\$ 23,274
Compensated Absences	\$ 9,617	\$ 8,152	\$ 26	\$ 17,743	\$ 17,743
<i>Long Term Liabilities</i>	\$ 381,992	\$ 8,152	\$ 23,299	\$ 366,845	

During the year ended December 31, 2012 the following changes occurred in liabilities.

	Beginning Balance 1/1/12	Additions	Reductions	Ending Balance 12/31/12	Due w/in One Year ¹
<i>Governmental Activities</i>					
Compensated Absences	\$ 24,701	\$ 7,703	\$ 169	\$ 32,235	\$ 22,948
<i>60Equipment Services</i>					
Compensated Absences	\$ 876	\$ 234	\$	\$ 1,110	1,110
Eq Service RDA Loan	\$ 19,191	\$ 0	\$ 2,450	\$ 16,741	\$ 2,509
<i>Long Term Liabilities</i>	\$ 44,768	\$ 7,937	\$ 2,619	\$ 50,086	24,388
<i>Business Type Activities</i>					
Governmental Loans	\$ 349,101	\$	\$ 23,273	\$ 325,828	\$ 23,274
Compensated Absences	\$ 17,743	\$ 584	\$ 0	\$ 18,327	16,146
<i>Long Term Liabilities</i>	\$ 366,844	\$ 584	\$ 23,273	\$ 344,155	39,420

¹ Compensated absences include sick buyout and vacation –there is one retirement for certain, second uncertain.

*Internal Service Funds are treated as a government fund:

Compensated Absences

2011

<i>Governmental Activities</i>		Vacation Accruals	Sick Buyouts	TOTALS
General Government	\$	4,364	6,112	10,476
Transportation	\$	2,656		2,656
Culture & Recreation	\$	1,052	2,444	3,496
Economic Enviro	\$	1,787	5,410	7,197
Equipment Services	\$	876		876
<i>Total Governmental</i>		10,735	13,966	24,701
<i>Business Type Activities</i>				
Water/Sewer Utility	\$	9,591	8,152	17,743

The internal service fund had one long term liability on December 31, 2011 as listed in the above debt schedules. Internal service funds compensated absences are included in the above amounts. See note above.

2012

<i>Governmental Activities</i>		Vacation Accruals	Sick Buyouts	TOTALS
General Government	\$	8,509	6,419	14,928
Transportation	\$	3,012	344	3,356
Culture & Recreation	\$	883	2,568	3,451
Economic Enviro	\$	1,558	8,943	10,501
Equipment Services	\$	1,110	0	1,110
<i>Total Governmental</i>		15,072	18,274	33,346
<i>Business Type Activities</i>				
Water/Sewer Utility	\$	12,297	6,030	18,327

The internal service fund had one long term liability on December 31, 2011 as listed in the above debt schedules. Internal service funds compensated absences are included in the above amounts. See note above.

State Law provides that General Obligation Debt cannot be incurred in excess of the following percentages of the value of the taxable property of the City:

- 1.5% - without a vote of the people*
- 2.5% - with a vote of the people
- 5.0% - with a vote of the people, provided the indebtedness in excess of 2.5% is for utilities, parks, or open space
- 7.5% - Total, with indebtedness for open space & parks

NOTE 13- CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including any estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment.

- In the opinion of management, the City's insurance policies and self-insurance reserves are adequate to pay all known or pending claims. The City is a part of the CIAW Insurance Pool that has been required by the OFM to pay a retroactive assessment for the period 2002-2006 over the next four year period. During the 2002-2006 periods, the CIAW funded the pool at the required estimated claims level as established by the program actuary. The adverse development of claims created an adjustment in past actuary estimates which left an unfunded claims liability. A plan has been submitted to OFM, the pool received approval, and the best estimate of the City's exposure is not more than \$1,200 per year for a five year period (2010 thru 2014).
- The City participates in a number of federal and state assisted programs. These grants and loans are subjected to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City management believes that such disallowances, if any, will be immaterial.

NOTE 14 – RESTRICTED NET POSITION

The government wide statement of net position report for 2011:

- \$385,039 restricted for new construction in the Water/Sewer Utility Fund
- \$12,509 restricted by bond covenants for debt service in the Water/Sewer Utility Fund
- \$805,194 restricted for tourism purposes in the Tourism Promotion Fund
- \$305,778 restricted in the Capital Improvement Fund under RCW 35.42.040 (Real Estate Excise Tax)
- \$41,491 restricted for transportation purposes
- \$811 restricted for debt purposes in the Equipment Service Fund
-

The Government wide statement of net position report for 2012:

- \$396,839 restricted for new construction in the Water/Sewer Utility Fund and \$12,451 restricted by bond covenants for debt service;
- \$782,566 in the Tourism Fund restricted to the promotion of tourism;
- \$264,666 in the Capital Improvement Fund restricted under RCW 35.42.040 (Real Estate Excise Tax);
- \$811 restricted for debt service in the Internal Service Funds.

The remaining funds are unrestricted.

NOTE 15-- INTERFUND TRANSACTIONS AND BALANCES

A. Classification of Interfund Transactions

Interfund transactions are classified as follows:

1. Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.
2. Transfers to support the operations of other funds are recorded as “Operating Transfers” and classified with “Other Financing Sources or Uses.”
3. Contribution to the capital of enterprise or internal service funds, (transfers between these funds and the general fixed assets account group,) transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as transfers.
4. Loans between funds are classified as Interfund loans receivable and payable or as advances to and from other funds on the combined balance sheet depending on the time period for which the loan was made. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity. See discussion in Note 16.

INTERFUND TRANSFERS

2011

		OUT		IN	
Current Expense	-\$71,000	Street Fund		+\$71,000	Budgeted Transfer for gen op
Tourism Promotion	-\$56,500	Cap Fund – Byways Project		+\$56,500	Provide funding for trail, way finding signage
Capital Improvement Fund	-8,000	Cap Fund - St Fund Bus shelters		+\$8,000	Budgeted transfer
Capital Improvement	-\$20,000	Cap Fund – Columbia Ave Proj		+\$20,000	Provide match for road project grant
Current Expense	-8,000	Cap Fund Byways		+8,000	Budget Transfer

2012

		OUT		IN	
Current Expense	-\$73,000	Street Fund		+\$73,000	Budgeted Transfer for gen op
Current Expense	-\$15,000	Jt. Emergency Fac.		+\$15,000	Budgeted Transfer for Cap Project
Capital Improvement Fund	-\$55,000	Bridging Byways		+\$55,000	Budget Transfer for Cap Project

INTERFUND LOANS AND ADVANCES

2011

Interfund Loan Receivable		
Tourism Promotion	Fire Line to Lodge	60,737
Interfund Loan Payable		
Current Expense	Fire Line to Lodge	42,960
Water Utility	Fire Line to Lodge	17,777

2012

<u>Interfund Loan Rec</u>		Remaining Balance
Tourism Promotion Fund	Fire Line to Lodge	\$30,669
<u>Interfund Loan Payable</u>		
Current Expense Fund	Fire Line to Lodge	22,213
Water Utility	Fire Line to Lodge	\$8,456

This loan will be repaid in 2013. See Note 11 for payment schedule.

NOTE 16 – OTHER DISCLOSURES

1. In 2011 and 2012 one single resort business represented more than 26% of the total assessed value for property tax purposes; and, the business is a major customer of the enterprise fund representing 15% of the operating revenue base in 2011 and 18% in 2012. Total retail sales from the resort/conference center represent a significant portion of the City's retail sales and motel/hotel sales tax receipts as well. Due to the national recession tourism industry slowed significantly impacting City revenues. And the customer is exploring "Green Options" that have significantly lowered water and sewer billings.
2. In 2010 the City was the recipient of a CDBG grant for public sewer, water, and street improvements serving a low income housing development. The sewer work was listed as a work in progress (\$90,763). In 2011, the City was able to close the WIP to assets and determined the actual grant portion had not been booked to Contributed Capital (\$79,900). A correction was made.
3. The City implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions during the year ended December 31, 2011. The objective of this statement is to improve the usefulness and understandability of governmental fund balance information. It provides more clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements and help financial statement users better understand the purposes for which governments have chosen to use particular funds for financial reporting. The City replaced the reserved and unreserved fund balance classifications with non-spendable, restricted, committed, assigned and unassigned within the equity section of the Governmental Funds Balance Sheet.
4. The City implemented GASB Statement 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended December 31, 2011. GASB Statement 63 requires that certain transactions that do not qualify for treatment as either assets or liabilities be accounted for as either deferred outflows of resources or deferred inflows of resources (separate subheadings to be added to certain financial statements). The City had no transactions during 2011 or 2012 that were required to be classified as deferred outflows or inflows of resources.

GASB 63 also changed some of the terms used in the financial statements, including redefining "Net Assets" as "Net Position" on the government-wide financial statements.

5. The City normally uses the accrual or modified accrual basis of accounting when recording revenues. However, for the last several decades the City chose to record certain tax and utility revenues on the cash basis as the revenue difference between consecutive reporting periods was considered to be not material to the financial statements. In 2011 it was determined that the differences were material and these revenues should be recorded using the accrual basis. To ease tracking, the City chose to accrue all tax revenues (whether material or not). As a result, December 31, 2011 governmental fund balances were restated by a total of \$97,739.
6. Prior period adjustments of \$4,108 for the year ended December 31, 2011, and (\$3,617) and \$46 for the year ended December 31, 2012, were made the Proprietary Fund *Statement of Revenues, Expenses, and Changes in Fund Net Position* to correct prior year reporting errors.



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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor
Chief of Staff
Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
Deputy Director of Quality Assurance
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