



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Ruston

Pierce County

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

Published January 20, 2015

Report No. 1013462





Washington State Auditor
Troy Kelley

January 20, 2015

Mayor and City Council
City of Ruston
Tacoma, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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Status of Prior Audit Findings

City of Ruston Pierce County January 1, 2013 through December 31, 2013

The status of findings contained in the prior years' audit reports of the City of Ruston is provided below:

- 1. The City of Ruston did not place all funds in an approved qualified public depository and invested \$4 million in unallowable investments.**

Report No. 1010991, dated 12/23/2013

Background

The City of Ruston deposited \$4 million in November 2012 with an entity that was not a qualified public depository. In addition, the City invested the entire amount into investments that were either specifically not allowed, or were not listed as allowable per state law.

Status

Partially resolved. The city has transferred all \$4 million of investments to an approved qualified public depositor; however, it still has \$1.2 million in unallowable investments.

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 Ruston
Pierce County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Ruston
Tacoma, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the City of Ruston, Pierce County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 13, 2015.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS


As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters that we have reported to the management of the City in a separate letter dated January 13, 2015.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY
STATE AUDITOR

January 13, 2015

Independent Auditor's Report on Financial Statements

**City of Ruston
Pierce County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Ruston
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Ruston, Pierce County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Ruston has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Ruston, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Ruston, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

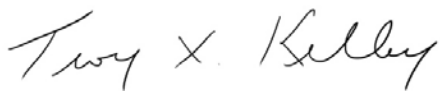
Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the

financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

January 13, 2015

Financial Section

**City of Ruston
Pierce County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Fund	101 City Street Fund	301 Capital Construction Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	587,261	750	150,684	298,644
30880	Beg Fund Bal-Unreserved	4,331,105	3,410,872	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	639,038	458,613	90,625	89,800
320	Licenses & Permits	71,064	68,564	2,500	0
330	Intergovernmental Revenues	41,174	16,007	15,608	0
340	Charges for Goods and Services	1,132,855	141,856	0	0
350	Fines & Penalties	96,383	75,825	0	0
360	Miscellaneous Revenues	97,815	97,522	23	49
Total Operating Revenues:		2,078,329	858,387	108,756	89,849
Operating Expenditures					
510	General Government	414,263	394,937	2,761	2,761
520	Public Safety	652,590	652,590	0	0
530	Utilities	775,716	57	0	0
540	Transportation	45,290	0	45,290	0
550	Natural and Economic Environment	335,833	335,833	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	1,858	1,858	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		2,225,550	1,385,275	48,051	2,761
Net Operating Increase (Decrease):		-147,221	-526,888	60,705	87,088
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	22,065	22,065	0	0
391-393	Debt Proceeds	78,966	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		101,031	22,065		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	11,955	11,955	0	0
591-593	Debt Service	92,301	1,698	0	0
594-595	Capital Expenditures	232,038	3,008	0	63,886
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		336,294	16,661		63,886
Increase (Decrease) in Cash and Investments		-382,484	-521,484	60,705	23,202
Ending Cash and Investments					
50810	End Fund Bal-Reserved	533,987	750	211,390	321,847
50880	End Fund Balance-Unreserved	4,001,896	2,889,388	0	-1

The accompanying notes are an integral part of this Statement.

BARS Code		401 Electric Utility Fund	403 Sewer Utility Fund	405 Garbage Utility Fund	407 Storm Sewer Utility Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	137,183	0	0
30880	Beg Fund Bal-Unreserved	241,259	416,390	73,645	188,939
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	9,559	0	0
340	Charges for Goods and Services	511,151	305,118	140,418	34,312
350	Fines & Penalties	15,974	3,200	1,384	0
360	Miscellaneous Revenues	86	94	9	32
Total Operating Revenues:		527,211	317,971	141,811	34,344
Operating Expenditures					
510	General Government	5,521	2,761	2,761	2,761
520	Public Safety	0	0	0	0
530	Utilities	479,231	145,795	136,408	14,225
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		484,752	148,556	139,169	16,986
Net Operating Increase (Decrease):		42,459	169,415	2,642	17,358
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	78,966	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:			78,966		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	90,603	0	0
594-595	Capital Expenditures	48,804	98,656	11,946	5,738
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		48,804	189,259	11,946	5,738
Increase (Decrease) in Cash and Investments		-6,345	59,122	-9,304	11,620
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	234,914	612,695	64,341	200,559

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	622 W.r. Rust Playfield Imp. Fund	623 Electric Meter Deposit Fund
308	Beginning Cash and Investments	91,180	10,197	80,983
388 and 588	Prior Period Adjustments, net	0	0	0
310-360	Revenues	10,819	10,814	5
380-390	Other Increases and Financing Sources	20,087	0	20,087
510-570	Expenditures	9,977	9,977	0
580-590	Other Decreases and Financing Uses	14,905	0	14,905
Increase (Decrease) in Cash and Investments		6,024	837	5,187
508	Ending Cash and Investments	97,203	11,034	86,169

The accompanying notes are an integral part of this Statement.

City of Ruston

MCAG #0624

Notes to the Financial Statements

For the Year Ended December 31, 2013

These notes are considered to be an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

The City of Ruston (the City) reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City was incorporated on October 19, 1906, and operates under the laws of the state of Washington applicable to a non-chartered code city with a mayor – council form of government. The City is a general purpose government and provides public safety, fire prevention, street improvement, parks and recreation, and general administrative services. The Town owns and operates electric, sewer, and garbage utility systems. The City uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Special Revenue Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that the City holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Budgets are presented in this report without ending balances. Ending Balances are residual balances of unappropriated funds at year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Fund			
General Fund	\$ 1,135,542	\$ 1,229,977	\$ (212,396)
Surplus Real Estate	140,686	140,686	
Cumulative Reserve For Equip.	11,500	3,008	8,492
School Building Maint. Fund	151,830	150,988	842
Total 001 - General Fund	1,389,558	1,642,620	(203,062)
101 - City Street Fund			
City Street Fund	47,550	48,051	(501)
Cumulative Reserve For Streets	50,000		50,000
Total 101 - City Street Fund	97,550	48,051	49,499
301 - Capital Construction Fund	153,690	66,646	87,044
401 - Electric Utility Fund			
Electric Utility Fund	560,910	584,753	(23,843)
Electric Utility Reserve Fund	112,000	48,804	63,196
Total 401 - Electric Utility Fund	672,910	633,557	39,353
403 - Sewer Utility Fund			
Sewer Utility Fund	242,145	228,556	13,589
Cumul.res./sewer Equip&repairs	50,000	50,000	
Sewer Replacement Capital Project	191,603	189,260	2,343
Total 403 - Sewer Utility Fund	483,748	467,815	15,933
405 - Garbage Utility Fund	132,177	164,216	(32,039)
407 - Storm Sewer Utility Fund	17,295	22,723	(5,428)
622 - W.r. Rust Playfield Imp. Fund	8,740	9,977	(1,237)
623 - Electric Meter Deposit Fund	5,000	14,905	(9,905)
	\$ 5,654,434	\$ 5,744,593	

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

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

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

F. Investments See Note 2, *Investments*.

G. Capital Assets

The City does not have a capitalization policy in place. The capital assets of the City are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Accumulations exceeding this limit may be approved by the Mayor, but must be used within one year.

Sick leave may be accumulated up to 224 hours. Upon separation or retirement employees do receive payment for unused sick leave.

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

J. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of interfund transfers, utility deposits, donations, and pass-through revenues to the state.

K. Risk Management

The City of Ruston is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2013, 91 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased

from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

L. Reserved Fund Balance

The City maintains the following reserved balances in the respective funds:

Fund Name	Amount Reserved	Reason for Restriction
001	\$ 750	Drug Investigation cash for police department
101	\$ 211,390	Restricted due to source revenue restriction
301	\$ 321,847	Restricted due to source revenue restriction
622	\$ 11,033	Restricted due to source revenue restriction and unexpendable trust
623	\$ 86,170	Restricted due to Agency nature of utility customer deposits

Note 2 - Investments

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

Investments are presented at cost basis for securities and fair market value for LGIP and money market accounts.

Investment amounts included in "Other Securities" are STRIPs of US guaranteed securities. In 2012, the SAO found that these securities are not allowable investments for the City of Ruston to hold. The City has an investment plan in place to liquidate these securities and purchase allowable investments. In 2013 the City was still in the process of converting the STRIPs. The conversion process will be complete by August 2016 when the STRIPs mature.

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

<u>Type of Investment</u>	①	②	③
	The City's own investments	Investments held by the City as an agent for other local governments, individuals, or private organizations.	<u>Total</u>
L.G.I.P.	\$ 252,702		\$ 252,702
Money Market Funds	36,178		36,178
U.S. Government Securities	2,750,000		2,750,000
Other Securities	1,213,853		1,213,853
<i>Total</i>	<u>\$ 4,252,733</u>		<u>\$ 4,252,733</u>

Note 3 - Property Tax

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

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

The City's regular levy for the year 2013 was \$2.858056751444 per \$1,000 on an assessed valuation of \$123,935,133 for a regular levy of \$291,533.99. Additional NC&I Revenue was \$47,519.35. Additional Refund Levy revenue was \$45,627.3. The total levy in 2013 was \$384,680.72

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2013:

<u>Borrowing fund</u>	<u>Lending fund</u>	<u>Balance 01/01/2013</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/2013</u>
405	005	\$ 90,000	\$ -	\$ 11,772	\$ 78,228
<i>Totals</i>		<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 11,772</u>	<u>\$ 78,228</u>

Note 5 – Debt Service Requirements

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

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

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2014		181,206		181,206
2015		181,206		181,206
2016		181,206		181,206
2017		181,206		181,206
2018		181,206		181,206
2019-2023		906,030		906,030
2024-2028		906,030		906,030
2029-2033		906,030		906,030
2034-2038		906,030		906,030
2039-2043		906,030		906,030
2044-2048		906,030		906,030
2049-2053		815,427		815,427
	\$ -	\$ 7,157,637	\$ -	\$ 7,157,637

Note 6 - Pension Plans

Substantially all City's full-time and qualifying part-time employees participate in PERS or LEOFF plans administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

Note 7 - Other Disclosures

Legal Matters

No legal actions were initiated in 2013, and there is no foreseen litigation based on activities that occurred in 2013 at this time.

On April 25, 2012, Pierce County Superior Court dismissed all claims against the City in Case #10-2-15634-3, Fabre and Point Defiance Café and Casino, LLC v. Town of Ruston, et al.

The dismissal has been appealed to the Washington Court of Appeals. The appeal was dismissed in 2013.

In 2014, prior to the completion of the 2013 Audit, the following events occurred subsequent to the filing of the financial statements in May of 2014:

In 2014, a lawsuit was filed against the City of Ruston by Kye S. Barker and D-Song, LLC, owners of the Unicorn Bar and Grill. The suit alleges harassment by the City of Ruston, its Mayor, its police force, its Police Chief, and various police officers. The Plaintiff also alleges that the city has taken property by requiring the plaintiff to remove an outdoor sidewalk seating area that encroached on the City's Right-of-Way.

The City has coverage under its insurance policy from AWC, and AWC is currently defending the suit. The suit is in the discovery phase, and an estimate of any contingent liability is not possible at this time. The City believes all of its actions are well documented and legitimate, and the City believes it would prevail at trial.

On August 14, 2014, a Standard Tort Claim Form was sent to the City of Ruston by the developer Point Ruston, LLC. Point Ruston alleges in the form that the City of Ruston contaminated Point Ruston property and impacted Point Ruston's stormwater outfalls. The claims include alleged nuisance, trespass, negligence, liability for private cost recovery under the Model Toxic Control Act, RCW 70.105D, and treble damages under RCW 2.24.630.

Point Ruston, LLC has not yet filed a complaint with the court. The City has retained a legal firm and an outside consultant who are conducting an initial evaluation of the legal and factual basis of Point Ruston's claims. This evaluation is ongoing.

No opinion on contingent liability or probability of outcome can be expressed at this time.

On August 26, 2014, Point Ruston, LLC filed a Notice of Intent to Sue under the Clean Water Act. Point Ruston, LLC alleges that the City of Ruston has been discharging "Non-Stormwater" without an NPDES permit in violation of the Clean Water Act. Point Ruston acknowledges that the City of Ruston is under an exemption from the requirement for an NPDES permit for discharges composed entirely of stormwater.

Point Ruston, LLC has not yet filed a complaint with the court. The City has retained a legal firm and an outside consultant who are conducting an initial evaluation of the legal and factual basis of Point Ruston's claims. This evaluation is ongoing.

No opinion on contingent liability or probability of outcome can be expressed at this time.

Utility Bond Issuance

During FY 2011 the City began construction on a complete Sewer Replacement Project. This project was

approved by the USDA for a guaranteed revenue bond issue in FY 2009. The construction amounts to be budgeted were uncertain as to their timing. \$1.4 million was expended in 2011, including a significant contribution by the City due to a change in the scope of work. \$2.95 million was expended in 2012, and the project was completed during 2012. An additional \$98,534 was expended in early 2013. The terms of the USDA agreement requires the City to pay for all amounts over the approved budget. The City has contributed over \$460,000 to the project for change orders, administrative costs, labor, and planning expenditures.

The City has entered into an agreement with US Bank to provide temporary financing and to issue Revenue Bonds secured by the USDA upon project completion. The US Bank temporary funding will be repaid from the bond proceeds. The Bond Anticipation Note (BAN) was a 24 month credit line that carries an annual interest rate of approximately 2.73%. The BAN was replaced by USDA Revenue Bonds in March of 2013. These bonds originally had a face amount of \$4,900,000.00, but due to completion of the project under budget they will have a face amount of \$4,120,178.21, and are amortized over 40 years at 3.13%. Semiannual payments will be made in the amount of \$90,603.00. A reserve of \$226,500 is required to be maintained for bond payments. The conversion of the BAN is reported on Schedule 9.

The City will pay the remaining retainage amounts to Rodarte Construction in 2014.

The City of Ruston participates in a number of federal- and state- assisted programs. These grants may subject 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.

Legal Compliance:

The General fund's (001's) budget also includes managerial funds 050 through 058 that are developer tracking funds. These funds track permit, engineering, and planning work performed by the city on behalf of property developers on the Point Ruston, Silver Cloud, and Stack Hill developments. These costs are reimbursable. There is a lag time in the payment of these items that crosses reporting periods due to the nature of the LID financing of the properties. These funds added a net \$118,000 to the general fund deficit in 2013 in the Engineering, Planning, and Legal departments. The balance of the over-expenditure was also due to the Planning, Engineering, and Legal costs relating to real estate developments within the city.

The Electric Utility fund (401) was over-expended due to increases in the wholesale price of electricity purchased from Tacoma electric, and increased labor costs due to new service and construction.

The Garbage Utility fund (405) was over-expended due to the repairs on a used automated garbage truck purchased in 2012, and the purchase of garbage carts for use with the truck.

The Storm Sewer Utility fund (407) was over-expended due to repair work from storm damage.

The W.R. Rust Playfield fund (622) was over-expended due to increased maintenance labor costs, an expansion of the park via lease from BNSF, and increased rental costs for sanitation.

The Electric Meter Deposit fund (623) was over-expended due to an increased turnover of deposits that were not expected in the 2013 budgeting process.

Notes to the Schedule 9

In 2013 the City of Ruston converted its Bond Anticipation Note to a USDA Guaranteed Revenue Bond

with a maturity of April 1, 2053. This bond has semi-annual payments due in March and September. Please reference the Notes to Schedule 9 for more information on how this affects comparable reporting with previous years.

Future Contingent Liabilities

As part of the EPA Consent Decree relating to the ASARCO superfund site, ASARCO, and its assignor Point Ruston, agreed to undertake remediation of the Ruston Tunnel and other actions. The City has approved Point Ruston's remediation plans, but the developer has asked that the City of Ruston contribute \$250,000 toward the Tunnel Remediation. The Department of Ecology has awarded the City of Ruston a grant of \$400,000 to contribute to the Tunnel remediation if the City can negotiate appropriate terms with the developer and the EPA to oversee the project.

Public Works Projects

The City of Ruston is currently seeking bids to upgrade and replace its manual read electric meters with AMR type meters.

The City of Ruston is currently engaged in updating its street lighting on Pearl Street.

Private Development

The City of Ruston provides engineering, planning, and other development services to a number of private developers engaged in work at Point Ruston, Stack Hill, and other areas within the City boundaries under a Master Development Plan Agreement. The City invoices these developers for services rendered. Several developers are currently carrying unpaid balances with the City. The City tracks these balances separately from the General Fund, but reports them as part of the General Fund for annual reporting purposes.

City of Ruston

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	259.11	Compensated Absences		32,134	4,355		36,489
Total General Obligations:				32,134	4,355		36,489
Revenue Obligations							
	263.62	Bond Anticipation Note	3/20/2013	3,931,157	189,021	4,120,178	0
	252.11	USDA Guaranteed Sewer 40 Year Bond	4/1/2053	0	4,120,178	26,255	4,093,923
	259.12	Compensated Absences		9,549	129		9,678
Total Revenue Obligations:				3,940,706	4,309,328	4,146,433	4,103,601
Total Liabilities:				3,972,840	4,313,683	4,146,433	4,140,090

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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

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

Contact information for the State Auditor's Office	
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