



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

City of Gold Bar

Snohomish County

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

Published December 28, 2015

Report No. 1015793





Washington State Auditor's Office

December 28, 2015

Mayor and City Council
City of Gold Bar
Gold Bar, Washington

Report on Financial Statements

Please find attached our report on the City of Gold Bar'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

TABLE OF CONTENTS

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	4
Independent Auditor's Report On Financial Statements	7
Financial Section.....	11
About The State Auditor's Office.....	26

**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 Gold Bar
Snohomish County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Gold Bar
Gold Bar, 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 Gold Bar, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 4, 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 by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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

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

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 4, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Gold Bar Snohomish County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Gold Bar
Gold Bar, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Gold Bar, Snohomish County, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 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 Gold Bar has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Gold Bar, for the year ended December 31, 2014, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Gold Bar, as of December 31, 2014, or the

changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 4, 2015

FINANCIAL SECTION

**City of Gold Bar
Snohomish County
January 1, 2014 through December 31, 2014**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014

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

		Total for All Funds (Memo Only)	001 General Government	101 City Street	103 Park Impact Fee Fund
Beginning Cash and Investments					
30810	Reserved	208,404	-	3,582	1,200
30880	Unreserved	734,126	141,253	-	-
388 & 588	Prior Period Adjustments, Net	(772)	5,053	8,764	-
Operating Revenues					
310	Taxes	513,711	472,697	-	-
320	Licenses and Permits	17,909	17,734	175	-
330	Intergovernmental Revenues	249,851	92,066	42,905	-
340	Charges for Goods and Services	413,967	3,985	-	900
350	Fines and Penalties	6,549	3,001	-	-
360	Miscellaneous Revenues	115,769	137	-	-
Total Operating Revenues:		1,317,756	589,620	43,080	900
Operating Expenditures					
510	General Government	117,024	117,024	-	-
520	Public Safety	339,056	339,056	-	-
530	Utilities	393,690	-	-	-
540	Transportation	63,082	-	40,993	-
550	Natural and Economic Environment	38,183	34,519	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	30,822	30,822	-	-
Total Operating Expenditures:		981,857	521,421	40,993	-
Net Operating Increase (Decrease):		335,899	68,199	2,087	900
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	29,445	-	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	13,000	5,000	-	-
Total Nonoperating Revenues:		42,445	5,000	-	-
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	29,253	26,406	2,847	-
591-593	Debt Service	73,408	48	1	-
594-595	Capital Expenditures	113,735	-	-	-
597	Transfers-Out	13,000	7,500	500	-
Total Nonoperating Expenditures:		229,396	33,954	3,348	-
Net Increase (Decrease) in Cash and Investments:		148,948	39,245	(1,261)	900
Ending Cash and Investments					
50810	Reserved	249,652	-	11,083	2,100
50880	Unreserved	841,051	185,547	1	-

The accompanying notes are an integral part of this statement.

104 Street Impact Fee Fund	301 Capital Projects Fund	302 Street Improvement Fund	401 Water Operating	410 Recycling Fund	415 Stormwater Fund
2,500	92,429	7,780	100,913	-	-
-	-	-	508,015	45,519	39,339
-	-	-	(14,589)	-	-
-	41,014	-	-	-	-
-	-	-	-	-	-
-	-	114,880	-	-	-
800	-	-	316,127	42,117	50,038
-	-	-	3,137	-	411
-	-	-	115,624	-	8
800	41,014	114,880	434,888	42,117	50,457
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	315,601	40,519	37,570
-	22,089	-	-	-	-
-	-	3,664	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	22,089	3,664	315,601	40,519	37,570
800	18,925	111,216	119,287	1,598	12,887
-	-	-	29,445	-	-
-	-	-	-	-	-
-	-	8,000	-	-	-
-	-	8,000	29,445	-	-
-	-	-	-	-	-
-	-	-	73,359	-	-
-	8,926	104,809	-	-	-
-	-	5,000	-	-	-
-	8,926	109,809	73,359	-	-
800	9,999	9,407	75,373	1,598	12,887
3,300	102,428	17,187	113,554	-	-
-	-	-	556,159	47,118	52,226

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	633 Agency Fund
308	Beginning Cash and Investments	6,642	6,642
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	3,345	3,345
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	9,695	9,695
		<hr/>	<hr/>
	Net Increase (Decrease) in Cash and Investments:	(6,350)	(6,350)
508	Ending Cash and Investments	293	293

The accompanying notes are an integral part of this statement.

City of Gold Bar
January 1, 2014 through December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gold Bar was incorporated in 1910 and operates under the laws of the state of Washington applicable to a non-charter code city with a Mayor-Council form of Government (RCW 35A). The City of Gold Bar is a general purpose local government and provides public safety through contract with Snohomish County, street maintenance and improvements, parks and recreation, and general administrative services. In addition, the City owns and operates a water utility, a storm water management system, and contracts for recycling services.

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

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

a. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the government. 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 government.

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.

PROPRIATERY 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.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

b. Basis of Accounting

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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

c. Budgets

The City of Gold Bar adopts Annual appropriated budgets for General, Special Revenue, Capital Project, and Enterprises funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the legally adopted 2014 budgets were as follow:

Fund	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Government	\$ 797,165	\$ 611,988	\$ 185,177
101 - City Street	46,082	35,578	10,504
103 - Park Impact Fee Fund	2,400	-	2,400
104 - Street Impact Fee Fund	2,500	-	2,500
301 - Capital Projects Fund	98,429	31,015	67,414
302 - Street Improvement Fund	127,869	109,809	18,059
401 - Water Operating	1,162,382	489,549	672,832
410 - Recycling Fund	88,624	40,519	48,106
415 - Stormwater Fund	90,795	37,570	53,225
Total Governmental Funds	\$ 2,416,246	\$ 1,356,029	\$ 1,060,217
633 - Agency Fund	10,642	9,695	947
Total City Funds	\$ 2,426,889	\$ 1,365,725	\$ 1,061,164

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

d. Cash and Investments

See Note #3, Cash and Deposits.

e. Capital Assets

Capital assets are assets with an initial individual cost of more than \$100 and an estimated useful life in excess of one year. The capital assets and inventory of the City of Gold Bar are recorded as capital expenditures when purchased.

f. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement.

Sick leave may accumulate up to 480 hours. Upon separation or retirement employees do not receive payment for unused sick leave. After accumulating thirty (30) days, employees may convert sick leave into vacation leave on a two to one ratio.

g. Long-Term Debt.

See Note #6, Debt Service Requirements.

h. Other Financing Sources or Uses

The City of Gold Bar's *Other Financing Sources or Uses* consist of operating transfers in and out, general obligation bond proceeds, capital purchases for land and equipment, other debt payments, and material prior year corrections. See Note 8, Prior Year Adjustments for further disclosure.

i. Risk Management

The City of Gold Bar 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 Inter-local Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Inter-local Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2014, 94 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 coverage is 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 occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insurance Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million of coverage limits, an excess liability policy is purchased from Star Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2014, AWC RMSA carried 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 Inter-local 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. The specific financials of the AWC RMSA can be obtained from the AWC RMSA Annual Report on file with the City of Gold Bar.

I. Reserved Portion of Ending Cash and Investments.

The City has no commitments or restrictions on fund balance except those imposed by State Law. The City does report on its financial statements as reserved fund balances the following:

- City Streets Fund 101 due to the sole revenue source being the State Motor Vehicle Excise Tax.
- Parks and Street Impact Funds 103 and 104 due to the sole revenue source being impact fees for improvements of parks and/or street infrastructure.
- Capital Projects Fund 301 due to the sole revenue being the Real Estate Excise Tax that can be used only for capital purposes.
- Street Improvement Fund 302 due to the sole revenue being Federal and State Construction Grants.
- Water Fund 401 revenues that are related to debt service payments and debt service reserves for debt payments and debt covenant requirements associated with the outstanding Revenue Bonds of the Water Utility, as well as, for capital improvements.
- Agency Fund 633 due to funds collected and due other governmental agencies.

NOTE (2) – COMPLIANCE AND ACCOUNTABILITY

A. Legal

In beginning in 2010, several lawsuits were filed against the city in Snohomish County Superior Court for non-compliance of the Public Records Act. The following are still active or have been resolved in 2014 as noted.

Block v. City of Gold Bar, filed Feb 2, 2010: #10-2-02355-9;

Trial Court approved City's Summary Judgment request on November 14, 2013. Plaintiff appealed and Court of Appeals upheld lower Court decision on May 16, 2014.

Block v. City of Gold Bar, filed April 6, 2011: #11-2-04307-8;

Action was stayed by the Trial Court on July 22, 2011 pending the trial and appeal outcome of Forbes v. Gold Bar # 10-2-04951-5, as the cases were similar. The Trial Court lifted the stay on April 7, 2015 and is allowing the case to proceed to trial.

Block v. City of Gold Bar, filed Nov 10, 2011: #11-2-09706-2;

Trial Court found for the City with prejudice. Sanctions were imposed with the judgment against the Plaintiff. Appellate Court affirmed Trial Court's decision on March 4, 2014. Plaintiff appealed to Supreme Court and the appeal was denied.

Block v. City of Gold Bar, filed Jan 17, 2012: #12-2-02255-9;

Violation of the Open Public Meetings Act Trial Court found for the City. Plaintiff appealed to Appellate Court for Review. Appellate Court upheld decision of Trial Court in July of 2014. Plaintiff appealed to State Supreme Court and the appeal was denied.

Block v. Gold Bar, et al., filed February 18, 2014, #2:14-cv-00235; Civil Rights Violation Federal Lawsuit.

The City of Gold Bar was named as defendants in a Civil Rights Violation Lawsuit along with Snohomish County and current/former employees of both Entities filed in the United States Federal Court for Western Washington. The lawsuit alleges that Plaintiff's civil rights under 28 USC 1331, 42 USC 1983 and 42 USC 1988 were violated by the defendants acting under the color of state and local law. Additionally, the Plaintiff claims civil RICO violations on the part of the Defendants against the Plaintiff and five other citizens of the City of Gold Bar. The lawsuit is in its initial stages.

B. Financial Reporting

In order to comply with the State of Washington Budget and Accounting Reporting System, the City rolls up several management funds into financial reporting activities. The table below shows the roll ups that occur for financial reporting purposes:

Reporting		Component	
Fund	Title	Fund	Title
001	General Government	001	General Fund
		003	Egg Hunt Fund
		006	National Night Out Fund
		015	Litigation Fund
101	City Street	101	City Street Fund
103	Park Impact Fee Fund	103	Park Impact Fee Fund
104	Street Impact Fee Fund	104	Street Impact Fee Fund
301	Capital Projects Fund	110	Public Works Equipment Reserve
		301	Capital Projects Fund
302	Street Improvement Fund	302	Street Improvement Fund
401	Water Operating	401	Water Operating Fund
		403	Water Capital Improvement
		404	FMHA Reserve Fund
		405	Water Emergency Reserve Fund
		407	Water Debt Service Fund
		409	Water Booster Pump Fund
410	Recycling Fund	410	Recycling Fund
415	Stormwater Fund	415	Stormwater Fund
633	Agency Fund	633	Agency Fund

C. SIGNIFICANT COMMITMENTS AND OBLIGATIONS

The City of Gold Bar has a commitment to pay for post-employment benefits for employees that belong to LEOFF1. These benefits include medical, vision, nursing care, etc. One retiree received benefits during the year and \$13,474 was paid out for those benefits during the year.

There have been no material violations of finance-related legal or contractual provisions, nor have there been any expenditure exceeding legal appropriations in any of the funds of the City of Gold Bar.

NOTE 3 – CASH AND DEPOSITS

It is the City of Gold Bar's policy to invest only the cash surplus for the Water Utility Capital Improvement Fund. The interest on this investment is allocated only to the Water Utility Capital Improvement Fund. Other surplus funds are maintained in the checking account. Due to the continued transition of City Treasurer staff and changes in banking, the City has forgone investing its limited funds at the present time. Once stability in staffing and banking relations occur, the City intends to resume investing all of its surplus funds and allocating the interest earnings according to monthly ending fund cash balances.

All deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposits Protection Commission. All investments are insured, registered or held by the City of Gold Bar or its agent in the government's name.

Investments are reported at fair value. Investments by type at December 31, 2014 are as follows:

TYPE OF INVESTMENT	CITY OF GOLD	TOTAL
	BAR OWN INVESTMENTS	
L.G.I.P	150,190	150,190
TOTAL	<u>\$ 150,190</u>	<u>\$ 150,190</u>

NOTE 4 - PROPERTY TAX

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

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

The City's regular levy for the year 2014 was \$1.60 per \$1,000 on an assessed valuation of \$115,532,563 for a total regular levy of \$184,852.10.

NOTE (5) - INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2014:

Borrowing Fund	Lending Fund	Balance 1/1/2014	New Loans	Repayments	Balance 12/31/2014
Street	Water	\$2,847	\$0	\$2,847	\$ -0-
General Fund	Water	\$39,552	\$0	\$26,606	\$12,946
	Totals	\$42,399	\$0	\$29,453	\$12,946

The interfund loan beginning balances were adjusted to reflect the amortization schedule for the interfund loans. The City Council adjusted the interest rate charged in 2013 and the amortization schedules used did not accurately reflect the adjustment resulting in a higher outstanding balance for 2013. The schedules were recalculated and the amounts of the above table were adjusted to reflect actual. The reported 2013 ending balances were \$3,805 and \$43,263 respectively for a total reported outstanding balance of \$47,068.

The Street interfund loan was completely liquidated in 2014. The General Fund interfund loan will be completely liquidated in June 2015.

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (Schedule 09) provides more details of the outstanding debt and liability of the City of Gold Bar and summarizes the City of Gold Bar's debt transactions for 2014. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

Year	GO Bonds	Revenue Bonds	Other Debt	Total Debt
2015	0	\$73,360	0	\$73,360
2016	0	\$73,360	0	\$73,360
2017	0	\$73,360	0	\$73,360
2018	0	\$73,360	0	\$73,360
2019	0	\$73,360	0	\$73,360
2020-2024	0	\$366,798		\$366,798
2025-2029	0	\$366,798		\$366,798
2030-2034	0	\$366,798		\$366,798
2035-2039	0	\$366,798		\$366,798
2040-2044	0	\$366,798		\$366,798
2045-2049	0	\$366,798		\$366,798
2050-2052	0	\$219,011		\$219,011
Total:	0	\$2,786,599		\$2,786,599

The City of Gold Bar initiated an interim loan with Cashmere Valley Bank in 2011, to provide for interim financing of \$1,766,000 for the purpose of funding construction of a booster pump to improve the capabilities of the City's water system. The interim loan was issued on July 26, 2011 for the total loan amount is \$1,766,000 and is backed by a loan guarantee from the United States Department of Agriculture (USDA). The loan was converted to a Revenue Bond in September 2012 with the USDA purchasing the bonds. The City paid-off the interim loan balance and called the remaining balance of the 1995 Revenue Bond issue through a bond defeasance in 2012.

NOTE 7 - PENSION PLANS

All City of Gold Bar employees are covered under the Federal Social Security System plan. In 1997, the City implemented contributions to the ICMA Benefit Trust 457 deferred compensation plan. The City developed a policy to match employee contributions up to \$100 per employee per month. In 1998, the policy was revised so that the City would contribute \$100 per employee per month if the employee contributed a minimum of \$25. Starting in January 2002, the City increased the contribution to \$125 per employee per month. In January 2008 the council voted to discontinue the contribution to ICMA starting in February 2008, although employees could elect to continue and contribute to ICMA in the amount of their choice.

As of February 1, 2008, substantially all City of Gold Bar full-time and qualifying part-time employees participate in the PERS administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Gold Bar's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

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

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

NOTE 8 – PRIOR YEAR ADJUSTMENTS

Due to the amount of turnover in the City Treasurer position for the last few years, allocations of certain operating costs occurred. The distributions analyzed were the Public Utility and Frontier phone costs. After a thorough review of these costs it was determined that consistent misallocations occurred as far back as 2013 which resulted in the Street and General Funds being overcharged with Public Utility costs and the Water Utility being undercharged by \$9,815. Similarly, the Frontier costs resulted in the General Fund being overcharged \$4,774 while the Water Utility was undercharged by the same amount. The net result of this review and reallocation was to improve the ending fund balances for both the Street and General Funds.

NOTE 9 – SUBSEQUENT EVENTS

a. Financial condition of the City.

As noted in Note 2 above, the City has been processing numerous Public Record Requests, several of which have resulted in litigation. The majority of the cases are filed by a small group of citizen's seeking "timely compliance" by the City to their requests. As a result, the City has incurred legal and staff expenditures which have depleted its General Fund operating reserves. Most of the public record requests are for email correspondence related to current and former elected officials and the requesters.

Assessed valuations and property tax collections have increased in the last year and all but two of the lawsuits have been settled. As a result, the City's General Fund continues to improve its financial condition. While operating costs for the General Fund have been cut as low as they can be in order to maintain minimum general government functions, the City's revenue stream has improved. The General Fund now has reserves of \$185,547 which is equivalent to 31.5% of its annual revenue. Any additional legal costs will not prove to be a burden as the City's insurance carrier has agreed to defend the City in all future public record and other litigation matters. Unforeseen events can still cause a severe financial condition where the City's General Fund cannot meet its financial and/or operational obligations but, the action of the insurance carrier provides room for the City to reestablish its reserves over the next several years.

Two additional lawsuits were filed subsequent to year end and after submitting the financial reporting package to the State Auditor.

The City's Utility Funds are solvent and in good financial condition. State Law allows for interfund loans between funds, while prohibiting direct, non-repayable support to general governmental operations by the Utilities. The need for such interfund loans has dissipated and while a good option, there is no intention to issue any further loans.

The overall financial condition of the City has improved in the last two to three years. Governmental services are still inadequate and will not recover significantly for the next few years. In order to rebuild its reserves, the City will continue to provide minimum essential services and not much more.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
259.11	Compensated Absenses		4,125	1,387	-	5,512
	Total General Obligations:		4,125	1,387	-	5,512
Revenue Obligations						
259.12	Compensated Absenses		20,739	-	705	20,034
263.82	US Department of Agriculture	9/1/2052	1,741,205	-	25,476	1,715,729
	Total Revenue Obligations:		1,761,944	-	26,181	1,735,763
	Total Liabilities:		1,766,069	1,387	26,181	1,741,275

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	
Deputy Director for Communications	Adam Wilson Adam.Wilson@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov