



Washington State Auditor's Office

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Financial Statements Audit Report

Town of La Conner

Skagit County

For the period January 1, 2013 through December 31, 2014

Published February 22, 2016

Report No. 1016206





Washington State Auditor's Office

February 22, 2016

Mayor and Town Council
Town of La Conner
La Conner, Washington

Report on Financial Statements

Please find attached our report on the Town of La Conner's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Town of La Conner
Skagit County
January 1, 2013 through December 31, 2014**

Mayor and Town Council
Town of La Conner
La Conner, 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 Town of La Conner, Skagit County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated January 26, 2016.

We issued an unmodified opinion on the fair presentation of the Town'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 Town 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 audits of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town'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 Town's financial statements are free from material misstatement, we performed tests of the Town'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 Town'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 Town'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

January 26, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town of La Conner Skagit County January 1, 2013 through December 31, 2014

Mayor and Town Council
Town of La Conner
La Conner, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Town of La Conner, Skagit County, Washington, for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Town'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 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 Town'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 Town'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 Town of La Conner 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 Town of La Conner, for the years ended December 31, 2014 and 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 Town 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 Town of La Conner, as of December 31, 2014 and 2013, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are 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 26, 2016 on our consideration of the Town’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 Town'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

January 26, 2016

FINANCIAL SECTION

**Town of La Conner
Skagit County
January 1, 2013 through December 31, 2014**

FINANCIAL STATEMENTS

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Schedule of Liabilities – 2014
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Town of La Conner
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 GENERAL FUND	123 HOTEL MOTEL FUND
Beginning Cash and Investments				
30810	Reserved	35,572	-	4,983
30880	Unreserved	2,133,672	403,759	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,445,323	1,167,621	126,351
320	Licenses and Permits	43,222	43,222	-
330	Intergovernmental Revenues	1,147,878	81,085	-
340	Charges for Goods and Services	2,250,998	18,607	-
350	Fines and Penalties	238	238	-
360	Miscellaneous Revenues	230,674	213,560	115
Total Operating Revenues:		5,118,332	1,524,332	126,466
Operating Expenditures				
510	General Government	199,717	199,679	-
520	Public Safety	501,901	501,651	-
530	Utilities	1,143,816	-	-
540	Transportation	197,235	197,235	-
550	Natural and Economic Environment	841,284	79,157	-
560	Social Services	715	715	-
570	Culture and Recreation	418,422	350,405	68,017
Total Operating Expenditures:		3,303,091	1,328,842	68,017
Net Operating Increase (Decrease):		1,815,242	195,490	58,449
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	30,669	-	-
391-393	Debt Proceeds	375,440	-	-
397	Transfers-In	136,000	33,000	-
Total Nonoperating Revenues:		542,109	33,000	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	135,174	-	-
594-595	Capital Expenditures	1,312,531	110,716	-
597	Transfers-Out	136,000	53,000	53,000
Total Nonoperating Expenditures:		1,583,705	163,716	53,000
Net Increase (Decrease) in Cash and Investments:		773,646	64,774	5,449
Ending Cash and Investments				
5081000	Reserved	115,972	39,159	10,432
5088000	Unreserved	2,826,916	429,374	-
Total Ending Cash and Investments		2,942,888	468,533	10,432

The accompanying notes are an integral part of this statement.

206 1997 LTGO BOND FUND	210 2003 LTGO BOND - Prkg/Fac Impr	303 FLOOD CONTROL	304 REET 1	305 REET 2	306 BOARDWALK CONSTRUCTION
-	-	-	13,372	17,217	-
18,839	10,206	94,312	-	-	82,545
-	-	-	-	-	-
18,836	18,406	-	32,807	32,807	-
-	-	-	-	-	-
-	-	-	-	-	1,066,794
-	-	-	-	-	-
-	-	-	-	-	-
11	4,658	85	106	111	-
18,848	23,064	85	32,912	32,918	1,066,794
-	-	-	19	19	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	19	19	-
18,848	23,064	85	32,893	32,899	1,066,794
-	-	-	-	-	-
-	-	-	-	-	-
38,500	14,500	50,000	-	-	-
38,500	14,500	50,000	-	-	-
-	-	-	-	-	-
54,626	31,746	-	-	-	-
-	-	-	-	-	1,059,747
-	-	-	-	30,000	-
54,626	31,746	-	-	30,000	1,059,747
2,722	5,818	50,085	32,893	2,899	7,047
-	-	-	46,265	20,116	-
21,560	16,025	144,396	-	-	89,591
21,560	16,025	144,396	46,265	20,116	89,591

The accompanying notes are an integral part of this statement.

307 FIRE TRUCK ACQUISITION	401 WATER FUND	403 DRAINAGE FUND	409 SEWER FUND
-	-	-	-
36,458	558,558	316,203	612,792
-	-	-	-
47,328	-	-	1,168
-	-	-	-
-	-	-	-
-	691,019	189,467	1,351,905
-	-	-	-
197	1,671	1,204	8,957
<u>47,524</u>	<u>692,689</u>	<u>190,671</u>	<u>1,362,030</u>
-	-	-	-
251	-	-	-
-	602,397	115,849	425,571
-	-	-	-
-	-	-	762,127
-	-	-	-
-	-	-	-
<u>251</u>	<u>602,397</u>	<u>115,849</u>	<u>1,187,698</u>
<u>47,273</u>	<u>90,292</u>	<u>74,822</u>	<u>174,332</u>
-	17,375	-	13,295
375,440	-	-	-
-	-	-	-
<u>375,440</u>	<u>17,375</u>	<u>-</u>	<u>13,295</u>
-	-	-	-
31,576	-	17,226	-
4,300	18,026	11,207	108,535
-	-	-	-
<u>35,876</u>	<u>18,026</u>	<u>28,433</u>	<u>108,535</u>
386,837	89,641	46,389	79,092
-	-	-	-
423,296	648,200	362,591	691,884
<u>423,296</u>	<u>648,200</u>	<u>362,591</u>	<u>691,884</u>

The accompanying notes are an integral part of this statement.

Town of La Conner
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	001 GENERAL FUND	123 HOTEL MOTEL FUND
Beginning Cash and Investments				
30810	Reserved	179,567	-	62,202
30880	Unreserved	2,210,593	477,060	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	1,272,387	1,041,448	136,002
320	Licenses & Permits	42,395	42,395	-
330	Intergovernmental Revenues	786,510	128,881	-
340	Charges for Goods and Services	2,266,303	25,003	-
350	Fines & Penalties	1,000	1,000	-
360	Miscellaneous Revenues	162,158	147,980	199
Total Operating Revenues:		4,530,754	1,386,708	136,201
Operating Expenditures				
510	General Government	215,556	212,963	954
520	Public Safety	463,233	463,233	-
530	Utilities	1,233,668	-	-
540	Transportation	199,763	199,763	-
550	Natural and Economic Environment	843,964	144,954	-
560	Social Services	525	525	-
570	Culture And Recreation	351,367	274,426	76,940
Total Operating Expenditures:		3,308,076	1,295,864	77,895
Net Operating Increase (Decrease):		1,222,678	90,844	58,307
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	982	9	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	525,000	143,350	-
Total Nonoperating Revenues:		525,982	143,359	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	103,788	-	-
594-595	Capital Expenditures	1,340,789	64,503	-
597	Transfers-Out	525,000	243,000	115,525
Total Nonoperating Expenditures:		1,969,577	307,503	115,525
Net Increase (Decrease) in Cash and Investments:		(220,917)	(73,300)	(57,218)
Ending Cash and Investments				
5081000	Reserved	35,572	-	4,983
5088000	Unreserved	2,133,672	403,759	-
Total Ending Cash and Investments		2,169,243	403,759	4,983

The accompanying notes are an integral part of this statement.

206 1997 LTGO BOND FUND	208 2002 UTGO FIRE BOND FUND	210 2003 LTGO BOND - Prkg/Fac Impr	303 FLOOD CONTROL	304 REET 1	305 REET 2
-	-	-	-	57,206	60,159
6,205	7,625	7,099	46,057	-	-
-	-	-	-	-	-
16,729	-	15,738	-	16,621	16,621
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
26	-	4,121	133	250	219
16,755	-	19,858	133	16,871	16,840
-	-	-	-	856	783
-	-	-	-	-	-
-	-	-	1,879	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,879	856	783
16,755	-	19,858	(1,746)	16,015	16,057
-	-	-	-	-	-
-	-	-	-	-	-
50,500	-	15,025	50,000	-	-
50,500	-	15,025	50,000	-	-
-	-	-	-	-	-
54,621	-	31,776	-	-	-
-	-	-	-	-	-
-	7,625	-	-	59,850	59,000
54,621	7,625	31,776	-	59,850	59,000
12,634	(7,625)	3,107	48,254	(43,835)	(42,943)
-	-	-	-	13,372	17,217
18,839	-	10,206	94,312	-	-
18,839	-	10,206	94,312	13,372	17,217

The accompanying notes are an integral part of this statement.

306 BOARDWALK CONSTRUCTION	307 FIRE TRUCK ACQUISITION	401 WATER FUND	403 DRAINAGE FUND	409 SEWER FUND
-	-	-	-	-
(123,481)	-	702,543	301,072	786,412
-	-	-	-	-
-	28,665	-	-	563
-	-	-	-	-
657,629	-	-	-	-
-	-	633,713	177,033	1,430,554
-	-	-	-	-
-	168	5,097	940	3,025
657,629	28,833	638,810	177,972	1,434,143
-	-	-	-	-
-	-	-	-	-
-	-	604,839	97,749	529,201
-	-	-	-	-
-	-	-	-	699,010
-	-	-	-	-
-	-	-	-	-
-	-	604,839	97,749	1,228,211
657,629	28,833	33,971	80,223	205,932
-	-	-	-	973
-	-	-	-	-
258,500	7,625	-	-	-
258,500	7,625	-	-	973
-	-	-	-	-
-	-	-	17,390	-
710,104	-	177,955	7,702	380,525
-	-	-	40,000	-
710,104	-	177,955	65,093	380,525
206,025	36,458	(143,984)	15,131	(173,620)
-	-	-	-	-
82,545	36,458	558,558	316,203	612,792
82,545	36,458	558,558	316,203	612,792

The accompanying notes are an integral part of this statement.

Town of La Conner
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	633 PARK & HALL DAMAGE DEPOSITS
308	Beginning Cash and Investments	4,560	4,560
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	26,908	26,908
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	27,498	27,498
Net Increase (Decrease) in Cash and Investments:		(590)	(590)
508	Ending Cash and Investments	3,970	3,970

The accompanying notes are an integral part of this statement.

Town of La Conner
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	631 AGENCY DISBURSEMENTS	633 PARK & HALL DAMAGE DEPOSITS
308	Beginning Cash and Investments	2,824	2,568	256
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	50,451	-	50,451
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	46,148	-	46,148
Net Increase (Decrease) in Cash and Investments:		4,303	-	4,304
508	Ending Cash and Investments	7,128	2,568	4,560

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of La Conner was incorporated on May 14, 1890 and operates under the laws of the State of Washington applicable to a municipality. The Town of La Conner is a general purpose local government and provides public safety, fire prevention, street improvement, parks and recreation and general administrative services. In addition, the Town of La Conner owns and operates a water system, sewer system and storm drainage system.

The Town of La Conner 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 Town of La Conner 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 Fund

This fund is the primary operating fund of the Town of La Conner. 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 Town of La Conner.

Debt Service Funds

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

Capital Projects Funds

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

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. The Sewer Fund 409 and Compost Fund 412 are rolled up for reporting purposes.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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 Town of La Conner also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The Town of La Conner adopts annual appropriated budgets for the 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 budgets were as follows:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$ 969,049	\$ 846,053	\$ 122,996
Park & Port Fund	\$ 540,856	\$ 330,645	\$ 210,210
Facilities Fund	\$ 116,854	\$ 101,209	\$ 15,645
Public Art Fund	\$ 34,458	\$ 22,155	\$ 12,303
Street Fund	\$ 679,200	\$ 197,887	\$ 481,313
Hotel Motel Fund	\$ 121,017	\$ 121,017	\$ 0
1997 LTGO Bond Fund	\$ 54,700	\$ 54,626	\$ 74
2003 LTGO Bond	\$ 31,750	\$ 31,746	\$ 4
Flood Control Fund	\$ 15,000	\$ 0	\$ 15,000
REET 1 Fund	\$ 20.00	\$ 19.00	\$ 1
REET 2 Fund	\$ 30,020	\$ 30,019	\$ 1
Boardwalk Fund	\$ 1,462,000	\$ 1,059,747	\$ 402,253
Fire Truck Acquisition	\$ 128,000	\$ 36,127	\$ 91,873
Water Fund	\$ 1,357,029	\$ 620,422	\$ 736,607
Drainage Fund	\$ 938,994	\$ 144,282	\$ 794,712
Sewer Fund	\$ 613,972	\$ 483,867	\$ 130,105
Compost Fund	\$ 917,337	\$ 812,367	\$ 104,970
	\$ 8,010,256	\$ 4,892,188	\$ 3,118,068

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

D. Cash and Investments

See Note 3 *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of 10 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to the number of hours an employee accrues each year and is payable upon separation or retirement.

Sick leave may be accumulated up to 960 hours for fulltime employees and 160 hours for part-time employees. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

G. Long Term Debt

See Note 4, *Debt Service Requirements*

H. Other Financing Sources or Uses

The Town of La Conner's *Other Financing sources or Uses* consist of:

- Operating transfers-in
- Operating transfers-out
- Capital lease

I. Risk Management

The Town of La Conner is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 175 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the

organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Council. When expenditures that meet restrictions are incurred, the Town of La Conner intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consists of 2014- REET 1 \$46,265, REET 2 \$20,116, Hotel Motel \$10,432, and Waterfront Park Donations \$39,121.90

NOTE 2 - PROPERTY TAXES

The Skagit 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 Town of La Conner. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town of La Conner's regular levy for 2014 was \$2.35583 per \$1,000 on an assessed valuation of \$127,779,012 for a total regular levy of \$306,246.00.

NOTE 3 – DEPOSITS AND INVESTMENTS

It is the Town of La Conner's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by (the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission). All investments are insured, registered or held by the Town of La Conner or its agent in the Town of La Conner's name.

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

<u>Type of Investment</u>	<u>Town of La Conner's investments</u>	<u>Total</u>
LGIP	\$ 54,767.30	\$ 54,767.30
Certificates of Deposit	\$ 1,138,579.49	\$1,138,579.49
Total	\$ 1,193,401.49	\$1,193,401.49

NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule Liabilities (09) provides more details of the outstanding debt and liabilities of the Town of La Conner and summarizes the Town of La Conner's debt transactions for year ending December 2014.

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

	<u>G.O. Debt</u>	<u>Revenue Debt</u>	<u>Other Debt</u>	<u>Total Debt</u>
2013	86,397		17,718	104,116
2014	117,948		17,226	135,174
2015	124,188		17,390	141,579
2016	123,952		17,226	141,178
2017	123,552		17,062	140,614
2018	36,885		16,898	53,782
TOTALS	\$612,922		\$ 103,520	\$ 716,443

A Public Works Trust Fund loan for drainage improvements was approved for an amount not to exceed \$279,538 with an interest rate of 1%, for a term not to exceed 20 years. As of December 31, 2004 the entire balance of \$279,538 had been drawn down.

NOTE 5 - INTERFUND LOANS AND ADVANCES:

There was no inter-fund loan activity during 2014.

NOTE 6 - PENSION PLANS

Substantially all Town of La Conner full-time and qualifying part-time employees participate in PERS I, PERS II and PERS III administered by the Washington State Department of Retirement Systems, under a 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 Town of La Conner'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:

The Town of La Conner revised the 2013 Annual Report to reflect the third quarter (fund 412) compost tax of \$39,036.06 to be paid into fund 001.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The Town of La Conner 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 Town of La Conner was incorporated on May 14, 1890 and operates under the laws of the State of Washington applicable to a municipality. The Town of La Conner is a general purpose government and provides public safety, fire prevention, street improvement, parks and recreation and general administrative services. In addition, the Town of La Conner owns and operates a water system, sewer system and storm drainage system. The Town of La Conner uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. **Fund Accounting**

The accounts of the Town of La Conner 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 Town of La Conner's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the Town of La Conner.

GOVERNMENTAL FUND TYPES:

General (Current Expense Fund)

This fund is the primary operating fund of the Town of La Conner. It accounts for all financial resources except those required or elected to be accounted for in another fund. The following funds are rolled up into the Current Expense fund for reporting: Park & Port Fund 002, Facilities Fund 003, Public Art Fund 004, and Street Fund 005.

Special Revenue Funds

These funds account for revenues that are restricted or committed to expenditures for specified purposes of the Town of La Conner.

Debt Service Funds

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

Capital Projects Funds

These funds account for financial resources, which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets. In 2013 the Town created Fund 307 Fire Truck Acquisition. During the planning phase for the purchase of the new Fire Truck, funds were recognized in the Reserved General Fund 001 before transferring to Fund 307.

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. The Sewer Fund 409 and Compost Fund 412 are rolled up for reporting purposes.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that the Town of La Conner 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 Town of La Conner 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 Town of La Conner adopts annual appropriated budgets for the 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 budgets were as follows:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$ 1,157,730	\$ 1,073,158	\$ 84,572
Park & Port Fund	\$ 228,092	\$ 227,391	\$ 701
Facilities Fund	\$ 116,260	\$ 88,015	\$ 28,245
Public Art Fund	\$ 15,630	\$ 14,016	\$ 1,614
Street Fund	\$ 233,635	\$ 200,788	\$ 32,847
Hotel Motel Fund	\$ 207,000	\$ 193,420	\$ 13,580
1997 LTGO Bond Fund	\$ 54,621	\$ 54,621	\$ 0
2002 UTGO -Fire Station	\$ 7,625	\$ 7,625	\$ 0
2003 LTGO Bond	\$ 31,776	\$ 31,776	\$ 0
Flood Control Fund	\$ 50,000	\$ 1,879	\$ 48,121
REET 1 Fund	\$ 60,850	\$ 60,706	\$ 144
REET 2 Fund	\$ 60,000	\$ 59,783	\$ 217
Boardwalk Fund	\$ 728,500	\$ 710,104	\$ 18,396
Water Fund	\$ 820,230	\$ 782,794	\$ 37,436
Drainage Fund	\$ 220,590	\$ 162,842	\$ 57,748
Sewer Fund	\$ 713,365	\$ 636,523	\$ 76,842
Compost Fund	\$ 977,400	\$ 972,213	\$ 5,187
	\$ 5,683,304	\$ 5,277,654	\$ 405,650

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

d. Cash

It is the Town of La Conner'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 Town of La Conner deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington Public Deposit Protection Commission.

f. Investments See Note 3.

g. Derivatives and Similar Transactions

No activity.

h. Capital Assets

Capital assets are assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of 10 years. The capital assets of the Town of La Conner are recorded as expenditures when purchased.

i. Compensated Absences

Vacation leave may be accumulated up to the number of hours an employee accrues each year and is payable upon separation or retirement.

Sick leave may be accumulated up to 960 hours for fulltime employees and 160 hours for part-time employees. Upon separation or retirement employees do not receive payment for unused sick leave.

j. Long-Term Debt See Note 6, *Debt Service Requirements*.

k. Other Financing Sources or Uses

The Town of La Conner's *Other Financing sources or Uses* consist of:

- Operating transfers-in
- Operating transfers-out
- Capital lease

l. Risk Management

The Town of La Conner is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical

damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

- m. Reserved Fund Balance: The Town of La Conner has at the end of the year 2013 - \$13,372 REET 1, \$17,217 REET 2, and \$4,983 Hotel Motel fund balances that are legally reserved balances.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. (See Note 8)

NOTE 3 - INVESTMENTS

The Town of La Conner's investments are either insured, registered or held by the Town of La Conner or its agent in the Town of La Conner's name.

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

<u>Type of Investment</u>	<u>Town of La Conner's investments</u>	<u>Total</u>
LGIP	\$ 54,767.30	\$ 54,767.30
Certificates of Deposit	<u>\$ 1,138,706.45</u>	<u>\$1,138,706.45</u>
Total	\$ 1,193,473.75	\$1,193,473.75

NOTE 4 - PROPERTY TAXES

The Skagit 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 revenues are recognized when cash is received by the Town of La Conner. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town of La Conner's regular levy for 2013 was \$2.23791 per \$1,000 on an assessed valuation of \$132,784,442 for a total regular levy of \$297,160.

NOTE 5 - INTERFUND LOANS AND ADVANCES: There was no inter-fund loan activity during 2013.

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long Term Debt (09) provides more details of the outstanding debt and liabilities of the Town of La Conner and summarizes the Town of La Conner's debt transactions for 2013. The debt service requirements for general obligation bonds and other debt, including both principle and interest, are as follows:

	G.O. Debt	Revenue Debt	Other Debt	Total Debt
2013	86,397		17,390	103,787
2014	86,372		17,226	103,598
2015	86,448		17,062	103,510
2016	86,422		16,898	103,320
2017	86,292		16,734	103,026
2018			16,570	16,570
TOTALS	\$431,931		\$ 101,880	\$ 533,811

A Public Works Trust Fund loan for drainage improvements was approved for an amount not to exceed \$279,538 with an interest rate of 1%, for a term not to exceed 20 years. As of December 31, 2004 the entire balance of \$279,538 had been drawn down.

NOTE 7 - PENSION PLANS

Substantially all Town of La Conner full-time and qualifying part-time employees participate in PERS I, PERS II and PERS III administered by the Department of Retirement Systems, under a 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 Town of La Conner's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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

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

NOTE 8 – OTHER DISCLOSURES

The Town of La Conner was not in compliance with its policy regarding the transfer of \$124,000 between the General Fund 001 and the Boardwalk Fund 306 at the time of the 2012 Audit. On November 27, 2013, the Council passed Ordinance 1107 approving the transfer of funds to provide a positive balance for Fund 306.

Town of La Conner
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	GO Non-voted	4/30/2017	203,600	-	48,200	155,400
251.11	GO Non-voted	11/30/2017	116,100	-	27,450	88,650
251.12	GO Voted	12/31/2025	-	380,000	25,000	355,000
259.11	Compensated Absence		15,483	21,890	22,986	14,387
263.51	Capitol Lease	11/30/2016	6,525	-	2,175	4,350
Total General Obligations:			341,708	401,890	125,811	617,787
Revenue Obligations						
259.12	Compensated Absence		14,399	18,290	19,297	13,392
263.82	PWTF Loan Drainage	7/31/2018	82,027	-	16,406	65,621
Total Revenue Obligations:			96,426	18,290	35,703	79,013
Total Liabilities:			438,134	420,180	161,514	696,800

Town of La Conner
Schedule of Liabilities
For the Year Ended December 31, 2013

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	Go Non-voted	4/30/2017	250,100	-	46,500	203,600
251.11	Go Non-voted	11/30/2017	142,600	-	26,500	116,100
251.11	Compensated Absence	12/31/2013	16,635	22,901	24,652	14,884
251.11	Capitol Lease	11/30/2016	8,700	-	2,175	6,525
Total General Obligations:			418,035	22,901	99,827	341,109
Revenue Obligations						
259.12	Compensated Absence	12/31/2013	18,560	18,653	21,678	15,535
263.82	PWTF Loan Drainage	7/30/2018	98,433	-	16,406	82,027
Total Revenue Obligations:			116,993	18,653	38,084	97,562
Total Liabilities:			535,028	41,554	137,911	438,671

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