

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**City of North Bonneville**  
**Skamania County**

Audit Period  
**January 1, 2011 through December 31, 2011**

**Report No. 1008914**

Issue Date  
**January 7, 2013**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

January 7, 2013

Mayor and City Council  
City of North Bonneville  
North Bonneville, Washington

***Report on Financial Statements***

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

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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

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# Schedule of Audit Findings and Responses

**City of North Bonneville  
Skamania County  
January 1, 2011 through December 31, 2011**

**1. The City's financial condition has continued to decline.**

**Background**

We communicated financial condition concerns to the City in the prior audit. Although the City has taken steps to reduce expenses, including staff furlough days, discontinuing the TV utility fund and contracting for police services, this condition has not improved.

**Description of Condition**

The City's financial position has declined over the past several years. The City's total cash and investment balances were:

Fiscal Year	Total Cash & Investments
2006	\$1,507,560
2007	1,495,257
2008	1,198,771
2009	1,205,111
2010	743,099
2011	352,198

To maintain a positive General Fund cash balance and continue operations, the City made interfund loans from restricted funds. At November 30, 2012, \$172,972 remained outstanding.

The General Fund had the following balances:

January 1, 2011	December 31, 2011	November 30, 2012*
(\$76,109)	\$32,922	\$158,799

\*unaudited

In addition, we communicated to management our concerns that the City's bank reconciliations do not balance and the City has not been able to dedicate the resources to determine why. Furthermore, the general fund relies on annual cost allocation transfers of approximately \$30,000 from restricted funds without adequate supporting documentation.

**Cause of Condition**

The Mayor and City Council have not placed a high priority on ensuring the systems in place provide timely, accurate financial reports so they can effectively monitor the financial condition of the City.

## Effect of Condition

The City is at risk of not being able to meet financial obligations or maintain services at its current levels. This could result in the City needing to take out bank loans or to find alternate funding sources, which would be an additional cost to its ratepayers and taxpayers.

Without accurate and complete financial information, they are unable to make informed decisions that affect the City's current financial condition.

In addition, the City is at risk of not being able to pay back the inter-fund loans, which would represent an inappropriate permanent diversion of restricted funds.

## Recommendations

We recommend the City:

- Adopt and follow a formal, comprehensive plan that includes detailed financial benchmarks and guidelines to specifically meet loan requirements.
- Closely monitor and evaluate its financial activities to ensure the plan is being followed and the desired results are achieved.
- Continue to make it a priority to ensure their financial information and accounting records are accurate and complete to assist with the monitoring of financial operations.

## City's Response

*The city acknowledges the audit finding and recommendations. As noted in the finding, the city council has taken many steps to reduce expenditures, including reductions in staff and service levels. Additionally, the city council has increased tax rates and service charges. As a result of these efforts, the city is pleased to project a 2012 year-end total cash balance of \$440,000 (a 24% increase over 2011), with a General Fund year-end cash balance of \$145,000 (a 439% increase over 2011 and approximately equal to a three month reserve).*

*The city also notes that it continues to address all findings from the 2009/2010 audit. We believe we are on track to achieve a robust financial condition no later than 2015, when the city's interfund loans are scheduled to be fully repaid.*

*To ensure future financial stability the city will continue to strengthen its financial controls and practices. For example, the 2013 budget was largely balanced without relying on revenues from anticipated construction projects, which should result in a further strengthening of the city's position in the coming year.*

## **Auditor's Remarks**

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## **Applicable Laws and Regulations**

RCW 43.09.200 Local government accounting--Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Part 3, Chapter 4 of the *Budgeting, Accounting and Reporting System* (BARS) manual, states in part:

The minimum acceptable procedures for making and accounting for inter-fund loans are as follows:

3. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.
4. The term of the loan may continue over a period of more than one year, but must be "temporary" in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a "permanent diversion" of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)

# Status of Prior Audit Findings

## City of North Bonneville Skamania County January 1, 2011 through December 31, 2011

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

1. **The City's internal controls are inadequate to ensure accurate accounting and reliable financial reporting.**

Report No. 1007203, dated November 14, 2011

### **Background**

The City did not perform timely bank reconciliations and had not performed during 2009 and half of 2010. There were also no procedures to ensure financial reports were accurate, complete, and properly reported. Financial activity was also not reviewed by the Mayor or Council.

### **Status**

This City has partially resolved the concerns noted in the prior audit finding. The City now performs monthly bank reconciliations to the general ledger which are presented to the Mayor and Council. However, the City has not been able to devote enough time account for variances in the reconciliations. The Council also reviews monthly budget to actual reports and is more closely looking at vouchers, contracts, and payroll prior to approval. In addition, the City has purchase new accounting software to help ensure that all City activity is actively recorded and reported. The City Clerk-Treasurer regularly updates the Council on the financial statement preparation process and presented Council with a copy of the statements once completed. We will review the City's progress during our next audit.

2. **The City has not effectively managed its operations, resulting in a decline in its financial condition.**

Report No. 1007203, dated November 14, 2011

### **Background**

The City's cash and investment balances have declined over the past several years and as a result, the City has made inter-fund loans from restricted funds to maintain a positive General Fund cash balance.

**Status**

The City has taken steps to reduce expenses and the Mayor and Council have been actively monitoring City activity through monthly budget to actual reports. However, the City's financial condition has continued to decline and we have reported this issue again in our audit report. We will review the City's progress during our next audit.

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

## City of North Bonneville Skamania County January 1, 2011 through December 31, 2011

Mayor and City Council  
City of North Bonneville  
North Bonneville, Washington

We have audited the financial statements of the City of North Bonneville, Skamania County, Washington, as of and for the year ended December 31, 2011, and have issued our report thereon dated October 29, 2012. Our report includes information about the status of the City's financial condition. This information is more fully described in the Schedule of Audit Findings and Responses, Finding 1.

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.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management and the Mayor and City Council. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

October 29, 2012

# Independent Auditor's Report on Financial Statements

## **City of North Bonneville Skamania County January 1, 2011 through December 31, 2011**

Mayor and City Council  
City of North Bonneville  
North Bonneville, Washington

We have audited the accompanying financial statements of the City of North Bonneville, Skamania County, Washington, for the year ended December 31, 2011. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the City prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 North Bonneville, for the year ended December 31, 2011, on the basis of accounting described in Note 1.

As described in Finding 1 in the Schedule of Audit Findings and Responses, the City's financial position continues to decline. The City has had to borrow from restricted funds in order to pay for operations and to address cash flow shortages. The City's cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the City's ability to maintain services at present levels under these conditions.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term 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.

The report is intended for the information and use of the management and the Mayor and City Council of the City. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

October 29, 2012

# Financial Section

**City of North Bonneville  
Skamania County  
January 1, 2011 through December 31, 2011**

## ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2011  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2011  
Notes to the Financial Statements – 2011

## ***SUPPLEMENTARY INFORMATION***

Schedule of Long-Term Liabilities – 2011

## Statement C-4: Fund Resources and Uses

BARS CODE		Total for	001	101
		All Funds <sup>1</sup>	Current Expense Fund	City Street Fund
		Total Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>				
308.10	Reserved	\$0.00	\$0.00	\$0.00
308.80	Unreserved	\$727,812	\$108,859	\$17,940
388.80 or 588.80	Prior Period Adjustments	(\$166,972)	(\$184,968)	\$30,306
<b>Revenues and Other Sources</b>				
310	Taxes	\$431,196.40	\$337,943.65	\$10,621.52
320	Licenses and Permits	\$4,951.18	\$4,951.18	\$0.00
330	Intergovernmental	\$169,681.02	\$19,200.86	\$19,796.57
340	Charges for Goods and Services	\$356,651.96	\$275.00	\$0.00
350	Fines and Penalties	\$4,878.79	\$4,878.79	\$0.00
360	Miscellaneous	\$31,109.81	\$20,276.50	\$80.98
370	Capital Contributions	\$0.00	\$0.00	\$0.00
390	Other Financing Sources	\$632,510.79	\$260,711.83	\$7,267.67
<b>Total Revenues and Other Financing Sources</b>		\$1,630,979.95	\$648,237.81	\$37,766.74
<b>Total Resources</b>		\$2,191,819.95	\$572,128.81	\$86,012.74
Operating Expenditures:				
510	General Government	\$233,996.28	\$233,996.28	\$0.00
520	Public Safety	\$111,430.12	\$111,430.12	\$0.00
530	Physical Environment	\$338,679.86	\$331.39	\$0.00
540	Transportation	\$59,521.59	\$0.00	\$40,654.24
550	Economic Environment	\$105,176.25	\$105,176.25	\$0.00
560	Mental and Physical Health	\$0.00	\$0.00	\$0.00
570	Culture and Recreational	\$158,665.58	\$32,835.26	\$0.00
<b>Total Operating Expenditures</b>		\$1,007,469.68	\$483,769.30	\$40,654.24
591-593	Debt Service	\$43,552.45	\$30,517.55	\$0.00
594-595	Capital Outlay	\$180,488.23	\$10,883.29	\$0.00
<b>Total Expenditures</b>		\$1,231,510.36	\$525,170.14	\$40,654.24
596-599	Other Financing Uses	\$624,834.79	\$29,288.03	\$6,254.55
<b>Total Expenditures and Other Financing Uses</b>		\$1,856,345.15	\$554,458.17	\$46,908.79
<b>Excess (Deficit) of Resources Over Uses</b>		\$335,474.83	\$17,670.25	\$39,103.96
380	Nonrevenues (Except 384)	\$196,536.68	\$23,036.64	\$0.00
580	Nonexpenditures (Except 584)	\$203,496.42	\$7,785.27	\$0.00
<b>Ending Cash and Investments:</b>				
508.10	Reserved	\$201,267	\$0.00	\$0.00
508.80	Unreserved	\$127,248	\$32,922	\$39,104

1) This column summarizes ALL reported funds, not just funds listed on this page  
The Accompanying Notes Are An Integral Part Of This Statement.

BARS CODE		104
		Tourism Promotion & Develop.
		Actual Amount
<b>Beginning Cash and Investments</b>		
308.10	Reserved	\$0.00
308.80	Unreserved	\$263,325.18
388.80 or 588.80	Prior Period Adjustments	(\$58)
<b>Revenues and Other Sources</b>		
310	Taxes	\$75,363.56
320	Licenses and Permits	\$0.00
330	Intergovernmental	\$0.00
340	Charges for Goods and Services	\$0.00
350	Fines and Penalties	\$0.00
360	Miscellaneous	\$0.00
370	Capital Contributions	\$0.00
390	Other Financing Sources	\$689.22
<b>Total Revenues and Other Financing Sources</b>		\$76,052.78
<b>Total Resources</b>		\$339,319.96
Operating Expenditures:		
510	General Government	\$0.00
520	Public Safety	\$0.00
530	Physical Environment	\$0.00
540	Transportation	\$0.00
550	Economic Environment	\$0.00
560	Mental and Physical Health	\$0.00
570	Culture and Recreational	\$125,830.32
<b>Total Operating Expenditures</b>		\$125,830.32
591-593	Debt Service	\$0.00
594-595	Capital Outlay	\$12,991.72
<b>Total Expenditures</b>		\$138,822.04
596-599	Other Financing Uses	\$117,492.79
<b>Total Expenditures and Other Financing Uses</b>		\$256,314.83
<b>Excess (Deficit) of Resources Over Uses</b>		\$83,005.13
380	Nonrevenues (Except 384)	\$0.00
580	Nonexpenditures (Except 584)	\$0.00
<b>Ending Cash and Investments:</b>		
508.10	Reserved	\$83,005.13
508.80	Unreserved	\$0.00

BARS CODE		301	302	400
		Equipment Fund	Capital Improvement Fund	Water Fund
		Actual Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>				
308.10	Reserved	\$0.00	\$0.00	\$0.00
308.80	Unreserved	\$38,168.64	\$52,471.61	\$208,785.50
388.80 or 588.80	Prior Period Adjustments	\$2,647	\$41,663	(\$15,364)
<b>Revenues and Other Sources</b>				
310	Taxes	\$0.00	\$7,267.67	\$0.00
320	Licenses and Permits	\$0.00	\$0.00	\$0.00
330	Intergovernmental	\$0.00	\$0.00	\$0.00
340	Charges for Goods and Services	\$0.00	\$0.00	\$136,527.26
350	Fines and Penalties	\$0.00	\$0.00	\$0.00
360	Miscellaneous	\$0.00	\$0.00	\$270.00
370	Capital Contributions	\$0.00	\$0.00	\$0.00
390	Other Financing Sources	\$17,645.65	\$266.93	\$11,823.66
<b>Total Revenues and Other Financing Sources</b>		\$17,645.65	\$7,534.60	\$148,620.92
<b>Total Resources</b>		\$58,461.29	\$101,669.21	\$342,042.42
Operating Expenditures:				
510	General Government	\$0.00	\$0.00	\$0.00
520	Public Safety	\$0.00	\$0.00	\$0.00
530	Physical Environment	\$0.00	\$0.00	\$101,624.35
540	Transportation	\$18,867.35	\$0.00	\$0.00
550	Economic Environment	\$0.00	\$0.00	\$0.00
560	Mental and Physical Health	\$0.00	\$0.00	\$0.00
570	Culture and Recreational	\$0.00	\$0.00	\$0.00
<b>Total Operating Expenditures</b>		\$18,867.35	\$0.00	\$101,624.35
591-593	Debt Service	\$0.00	\$0.00	\$13,015.68
594-595	Capital Outlay	\$0.00	\$0.00	\$27,639.51
<b>Total Expenditures</b>		\$18,867.35	\$0.00	\$142,279.54
596-599	Other Financing Uses	\$0.00	\$92,267.67	\$253,822.91
<b>Total Expenditures and Other Financing Uses</b>		\$18,867.35	\$92,267.67	\$396,102.45
<b>Excess (Deficit) of Resources Over Uses</b>		\$39,593.94	\$9,401.54	(\$54,060.03)
380	Nonrevenues (Except 384)	\$0.00	\$0.00	\$173,302.00
580	Nonexpenditures (Except 584)	\$0.00	\$0.00	\$14,000.00
<b>Ending Cash and Investments:</b>				
508.10	Reserved	\$0.00	\$9,401.54	\$96,962
508.80	Unreserved	\$39,593.94	\$0.00	\$8,280

BARS CODE		401	402
		Sewer Fund	Television Fund
		Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>			
308.10	Reserved	\$0.00	\$0.00
308.80	Unreserved	\$19,426.64	\$18,835.84
388.80 or 588.80	Prior Period Adjustments	(\$38,403)	(\$2,795)
<b>Revenues and Other Sources</b>			
310	Taxes	\$0.00	\$0.00
320	Licenses and Permits	\$0.00	\$0.00
330	Intergovernmental	\$130,683.59	\$0.00
340	Charges for Goods and Services	\$195,421.30	\$24,428.40
350	Fines and Penalties	\$0.00	\$0.00
360	Miscellaneous	\$10,482.33	\$0.00
370	Capital Contributions	\$0.00	\$0.00
390	Other Financing Sources	\$248,683.94	\$25,421.89
<b>Total Revenues and Other Financing Sources</b>		\$585,271.16	\$49,850.29
<b>Total Resources</b>		\$566,294.80	\$65,891.13
Operating Expenditures:			
510	General Government	\$0.00	\$0.00
520	Public Safety	\$0.00	\$0.00
530	Physical Environment	\$189,012.50	\$47,711.62
540	Transportation	\$0.00	\$0.00
550	Economic Environment	\$0.00	\$0.00
560	Mental and Physical Health	\$0.00	\$0.00
570	Culture and Recreational	\$0.00	\$0.00
<b>Total Operating Expenditures</b>		\$189,012.50	\$47,711.62
591-593	Debt Service	\$19.22	\$0.00
594-595	Capital Outlay	\$128,973.71	\$0.00
<b>Total Expenditures</b>		\$318,005.43	\$47,711.62
596-599	Other Financing Uses	\$47,529.33	\$18,179.51
<b>Total Expenditures and Other Financing Uses</b>		\$365,534.76	\$65,891.13
<b>Excess (Deficit) of Resources Over Uses</b>		\$200,760.04	\$0.00
380	Nonrevenues (Except 384)	\$198.04	\$0.00
580	Nonexpenditures (Except 584)	\$181,711.15	\$0.00
<b>Ending Cash and Investments:</b>			
508.10	Reserved	\$11,898	\$0.00
508.80	Unreserved	\$7,349	\$0.00

## Statement C-5: Fiduciary Fund Resources and Uses

	Total for	602	631	632
	All Funds <sup>1</sup>	Deposit Fund	Payroll Fund	Claims Clearing Fund
	Total Amount	Actual Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>	\$231,865.68	\$6,290.94	\$167,572.94	\$58,001.80
Prior Period Adjustments	(\$53,387)	(\$152)	(\$42,173)	(\$11,062)
Revenue and Other Financing Sources	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total Resources</b>	\$178,478.68	\$6,138.94	\$125,399.94	\$46,939.80
<b>Expenditures And Other Financing Uses</b>	\$0.00	\$0.00	\$0.00	\$0.00
<b>Excess (Deficit) of Resources Over Uses</b>	\$178,478.68	\$6,138.94	\$125,399.94	\$46,939.80
Nonrevenues (Except 384)	\$193,234.86	\$150.00	\$106,599.34	\$86,485.52
Nonexpenditures (Except 584)	\$349,257.52	\$115.13	\$229,419.01	\$119,723.38
<b>Ending Cash and Investments</b>	\$22,456.02	\$6,173.81	\$2,580.27	\$13,701.94

1) This column summarizes ALL reported funds, not just funds listed on this page  
The Accompanying Notes Are An Integral Part Of This Statement.

## Notes to the Financial Statements

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The City of North Bonneville was incorporated in 1935 and operates under the laws of the state of Washington applicable to a General purpose government. The City of North Bonneville is a General purpose government and provides:

- water
- wastewater
- cable television
- municipal court
- street maintenance
- planning
- permitting
- code enforcement
- building inspection
- General administrative service
- parks maintenance
- public safety (police and volunteer fire)

The City of North Bonneville uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

#### *a. Fund Accounting*

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

#### GOVERNMENTAL FUND TYPES:

##### General (Current Expense) Fund

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

##### Special Revenue Funds

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

##### 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.

Internal Service Funds

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

**FIDUCIARY FUND TYPES:**

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

Agency Funds

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

**MANAGEMENT FUND TYPES:**

Management funds are sometimes created to assist in daily accounting and administration, and are rolled into the funds described above for reporting purposes. In 2011, the City of North Bonneville maintained the following management funds:

- Fund 105 (Tourism Reserve), rolled into Fund 104 (Tourism)
- Fund 403 (Sewer Reserve), rolled into Fund 401 (Sewer)
- Fund 404 (Water Reserve), rolled into Fund 400 (Water)
- Fund 405 (Sewer Plant Construction), rolled into Fund 401 (Sewer)
- Fund 304 (Cable TV Reserve), rolled into Fund 402 (Cable TV)

**b. *Basis of Accounting***

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

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

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

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

**c. *Budgets***

The City of North Bonneville adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follow:

<b>FUND</b>	<b>Final Appropriation</b>	<b>Actual Expenditure</b>	<b>Variance</b>
001 -- General	545,000	562,243	(17,243)*
101 -- Street	47,000	46,909	91
104 -- Tourism	280,000	266,315	13,685
105 -- Tourism Reserve	50,000	50,000	0
300 -- Cascade Drive	0	0	0
301 -- Equipment	27,946	18,867	9,079
302 -- Capital Improvement	95,000	92,268	2,732
400 -- Water	154,873	136,014	18,859
401 -- Sewer	248,905	244,970	3,935
402 -- Television	57,361	50,253	7,108
403 -- Sewer Reserve	17,019	16,884	135
404 -- Water Reserve	295,000	294,089	911
405 -- Sewer Plant Construction	295,000	300,835	(5,835)*
406 -- Television Reserve	638	15,638	(15,000)*
602 -- Deposit	1,235	115	1120

\* See Note 2 regarding expenditures exceeding appropriations.

Budgeted amounts are authorized to be transferred between departments within any fund; 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 North Bonneville legislative body.

*d. Cash*

It is the City of North Bonneville'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 deposited in the General fund per RCW 35A.40.050 and the City of North Bonneville Resolution #300.

*e. Deposits*

The City of North Bonneville deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation.

*f. Investments*

See Note 3, investments

*g. Capital Assets*

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

h. **Compensated Absences**

Vacation leave may be accumulated up to 300 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 960 hours. Upon separation or retirement employees receive payment for unused sick leave at 25% if they have at least 10 years of service.

Compensatory time may be accrued in lieu of overtime pay up to 100 hours, and is payable upon request, upon separation from service, or upon retirement.

i. **Long-Term Debt**

See Note 6, Long-Term Debt.

j. **Other Financing Sources or Uses**

The City of North Bonneville's *Other Financing Sources or Uses* consist of amounts due to and from other governmental units including interfund receivables and payables and amounts due from other governments for grants, entitlements, and charges for services, and for some debt payments.

k. **Risk Management**

The City of North Bonneville 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 150 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 in the 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 \$500,000, 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. These revenues directly offset portions of the membership's annual assessment.

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.

**I. Reserved Fund Balance**

Year end reserved fund balances were as follows:

General Fund \$0

The General Fund received certain restricted revenues in 2011 such as those sale taxes restricted to Court expenditures, but all such revenues were assumed to have been spent before non-restricted revenues.

Street Fund \$0

The Street Fund received motor vehicle excise tax revenues in 2011, but all such revenues were assumed to have been spent before non-restricted revenues.

Lodging Tax Fund \$83,005

All lodging tax revenues receipted into the Lodging Tax Funds are reserved for tourism promotion per state law.

Capital Improvement Fund \$9,402

The only source of revenue in the Capital Improvement Fund is Real Estate Excise Tax (REET), which is reserved for certain types of capital improvements per state law.

Water Fund \$96,962

The Water Reserve Fund (404) is rolled into the Water Fund (400) for reporting purposes. The Water Reserve Fund includes new connection charge revenues as well as reserve fund payments from the Water fund that are intended for system capital improvements and emergency repairs.

Sewer Fund \$11,898

The Sewer Reserve Fund (403) is rolled into the Sewer Fund (401) for reporting purposes. The Sewer Reserve Fund includes new connection charge revenues as well as reserve fund payments from the Sewer fund that are intended for system capital improvements and emergency repairs.

**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

Expenditures exceeded legal appropriations in the following funds:

<b>FUND</b>	<b>Final Appropriation</b>	<b>Actual Expenditure</b>	<b>Variance</b>
001 -- General	545,000	561,975	(17,243)
304 -- Television Reserve	638	15,638	(15,000)
405 -- Sewer Plant Construction	295,000	300,835	(5,835)

Subsequent to closing the 2011 year, an error was found in the closure of the Cable TV Fund. To correct this error a transfer from the General Fund to the Cable TV Fund was necessary which resulted in exceeding the 2011 General Fund appropriation. Similarly, the negative variances in the Television Reserve and Sewer Plan Construction Funds were due to a final transfer of ending cash balances out of these funds upon their closure at the end of the year.

**NOTE 3 - INVESTMENTS**

The City of North Bonneville’s investments are either insured, registered or held by the City of North Bonneville or its agent in the City of North Bonneville’s name.

Investments are held in and presented at cash value.

Investments by type at December 31, 2011 are as follows:

Type of Investment	City's Own Investments	Investments held by city as an agent for other local governments, individuals, or private organizations.	Total
Washington Local Government Investment Pool (LGIP)	130,440	-	130,440
First Independent Bank -- Money Market Account	249,987	-	249,987
Total	380,427	-	380,427

**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 City of North Bonneville. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of North Bonneville’s regular levy rate for the year 2011 was \$2.279937 per \$1,000 on an assessed valuation of \$81,619,878 for a total regular levy of \$186,088.

**NOTE 5 - INTERFUND LOANS AND ADVANCES**

The following table displays interfund loan activity during 2011:

Borrowing Fund	Lending Fund	Balance 1/1/2011	New Loans	Repayments	Balance 12/31/2011
Water	General	\$140,000	\$0	\$14,000	\$129,552
Sewer	General	\$5,000	\$0	\$5,031	\$0
General	Lodging Tax	\$0	\$65,000	\$0	\$65,000
General	Tourist Facility	\$0	\$50,000	\$0	\$50,000
General	Capital Projects	\$0	\$85,000	\$0	\$85,000
Water	Water Reserve	\$0	\$20,000	\$0	\$20,000
Sewer	Water Reserve	\$0	\$40,000	\$0	\$40,000
Treatment Plant	Water Reserve	\$0	\$191,684	\$173,302	\$18,659
<b>TOTAL</b>		<b>\$145,000</b>	<b>\$451,684</b>	<b>\$192,333</b>	<b>\$408,211</b>

The Water Fund was unable to make adequate payments on its General Fund debt in 2011. The debt schedule was revised per Resolution 439 in January, 2012 to accommodate a more realistic repayment plan. Water rates were raised in 2011 to enable the fund to fully meet its financial obligations.

### **NOTE 6 - LONG-TERM DEBT**

The accompanying Schedule of Long-Term Debt (09) provides a listing of the City's outstanding debt and summarizes the City's debt transactions for 2011. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

<b>General</b>			
<b>Obligation</b>	<b>Revenue</b>	<b>Other</b>	<b>Total</b>
<b><u>Bonds</u></b>	<b><u>Bonds</u></b>	<b><u>Debt</u></b>	<b><u>Debt</u></b>
Fire Truck			
2011		\$30,518	\$30,518
2012		\$30,518	\$30,518
2013		\$30,518	\$30,518
2014		\$30,518	\$30,518
2015		\$30,518	\$30,518
2016 – 2018		\$91,554	\$91,554
Subtotal		\$244,144	\$244,144
CTED Loan #1			
2011		\$3,985	\$3,985
Subtotal		\$3,985	\$3,985
CTED Loan #2			
2011		\$12,508	\$12,508
2012		\$12,508	\$12,508
2013		\$12,508	\$12,508
2014		\$12,508	\$12,508
2015		\$12,508	\$12,508
2016 – 2020		\$62,540	\$62,540
2021 – 2025		\$62,540	\$62,540
2026		\$41,237	\$41,237
Subtotal		\$228,856	\$228,856
<b>TOTALS</b>		<b>\$476,985</b>	<b>\$476,985</b>

### **NOTE 7 - PENSION PLANS**

Substantially all City of North Bonneville's full-time and qualifying part-time employees participate in PERS 1 and PERS 2, 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 North Bonneville'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**

### ***A) Adjustments to Fund Balances***

As anticipated in Note 8 in the 2010 Financial Report, the State Audit of the City's 2009/2010 Financial Statements found numerous material errors. As a result of these audit findings, cash was written down and fund balances were restated as follows.

<b>Fund</b>	<b>2010 Reported Balances</b>	<b>Net Cash Adjustments</b>	<b>Final 2010 Balances</b>
001 – General	108,859	(184,968)	(76,109)
101 – Street	17,940	30,306	48,246
104 – Hotel/Motel	263,325	(58)	263,267
105 – Tourist Facility	0	0	0
301 – Equipment	38,169	2,647	40,816
302 – Capital Improvement	52,472	41,663	94,135
304 – TV Reserve	15,288	0	15,288
305 – Water Reserve	211,837	0	211,837
306 – Sewer Reserve	11,782	0	11,782
310 – Sewer Plant Const.	(32,015)	0	(32,015)
400 – Water	(3,051)	(15,364)	(18,415)
401 – Sewer	39,660	(38,403)	1,257
402 – Cable TV	3,548	(2,795)	753
602 – Deposit	6,216	(152)	6,064
631 – Payroll Clearing	167,573	(42,173)	125,400
632 – Claims Clearing	58,002	(11,062)	46,940

As a result of the above fund balance restatements numerous interfund loans were required to maintain positive year-end fund balances for 2011 (see [Note 5](#)).

### ***B) Fund Closures***

On October 1, 2011 the City shut down operation of its cable television system. Funds 304 (Cable TV Reserve) and 402 (Cable TV) were closed on 12/31/2011.

With the completion of a new sewer plant in April, 2011, Fund 310 (Sewer Plant Construction) was closed. The Remaining loan balance owed to Fund 404 (Water Reserve) will be paid out of Fund 401 (Sewer).

Fund 300 (Cascade Drive) was closed on 12/18/2011.

***C) BARS Restructure***

In February, 2012 the City contracted with an outside firm for a full review and update of the City's accounting structure (according to the Budgetary Accounting and Reporting Structure (BARS) promulgated by the State Auditor). This project resulted in a multitude of account coding changes, as well as the re-coding of several funds as follows:

<b>Fund Name</b>	<b>Old Fund Number</b>	<b>New Fund Number</b>
Cable TV Reserve	304	406
Water Reserve	305	404
Sewer Reserve	306	403
Sewer Plant Const.	310	405

City of North Bonneville  
Schedule of Long-Term Liabilities  
For Year Ending December 31, 2011

ID. No.	Description	Maturity/Payment Due Date	Beginning Balance 01/01/2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2011
263.91	2001 CTED W/S Loan #1	5/31/2011	3,884	-	3,884	591 78 34	-
263.91	2002 CTED W/S Loan #2	8/31/2026	236,562	-	7,706	591 78 34	228,856
263.53	2007 71115000 Fire Truck Lease/Purchase	4/21/2018	199,570	-	20,750	591 22 77	178,819
259.11	Compensated Absences					N/A	
	Sick Leave		4,697	3,436	2,134		5,999
	Vacation Leave		15,615	18,888	14,657		19,846
	Compensatory Time		7,305	13,315	12,491		8,130
	Sub-Total, Compensated Absences		27,617	35,639	29,282		33,975
	Total		467,633	35,639	61,622	-	441,650



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
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