Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57977

TOWN OF MILLWOOD

Spokane County, Washington

January 1, 1994 Through December 31, 1995

Issue Date: February 21, 1997

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TOWN OF MILLWOOD
Spokane County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Compliance With State Laws And Regulations

Mayor
Town of Millwood
Millwood, Washington

We have audited the financial statements, as listed in the table of contents, of the Town of Millwood, Spokane County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated December 20, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the town complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the town's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the town and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the town complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted an instance of noncompliance of regulatory requirements immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the town had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. 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.

Brian Sonntag
State Auditor

December 20, 1996

TOWN OF MILLWOOD
Spokane County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. The Town Should Comply With Revenue Bond Covenants

The town is not in compliance with the covenants for its 1993 revenue bonds. The covenants require net revenue in the water and sewer funds to be 1.25 times the maximum annual debt service for the bonds. In 1994, the required net revenue was $133,223. The water and sewer operations generated $93,754. In 1995, the required net revenue was $262,737. The water and sewer operations generated $159,280.

The 1993 water and sewer revenue bond requires the town:

> . . . to fix, maintain and collect rates and charges for the use of the services and facilities . . . that the Net Revenue for each calendar year will equal at least 1.25 times the Maximum Annual Debt Service of that portion of all outstanding Bonds and Additional Bonds . . . .

Bond covenants require minimum generation of revenue in order to protect bond holders from default and to help ensure that annual principle and interest payments are made.

Town management indicated that this condition occurred because the completion of the sewer project extended into 1996. This delayed customers from joining the system. At the end of 1995, the town had 548 sewer users out of a potential 847 customers. Once all users are connected, according to management, net revenues will be sufficient to cover the net revenue shortage.

We recommend town officials comply with bond covenants.

Auditee's Response

Customers were delayed from connecting to the system because the completion of the sewer construction project was delayed. Sewer construction has not been completed. Net revenues from the system, with 789 connections now in place, will be sufficient to cover the net revenue shortage.

Auditor's Concluding Remarks

We appreciate the town's timely response to our audit finding. It appears that the concern noted in this finding is being adequately addressed. We will review the town's progress in this area during our next regularly scheduled audit.

We also wish to thank the town's officials and personnel for their assistance and cooperation during our audit.

TOWN OF MILLWOOD
Spokane County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Financial Statements And Additional Information

Mayor
Town of Millwood
Millwood, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the Town of Millwood, Spokane County, Washington, for the fiscal years ended December 31, 1995 and 1994. These financial statements are the responsibility of the town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 town prepares its financial statements on the cash 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 recognized revenues and expenditures of the funds of the Town of Millwood for the fiscal years ended December 31, 1995 and 1994, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt and Schedules of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor