



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Wapato

For the period January 1, 2017 through December 31, 2017

Published May 2, 2019

Report No. 1023731





**Office of the Washington State Auditor
Pat McCarthy**

May 2, 2019

Mayor and City Council
City of Wapato
Wapato, Washington

Report on Financial Statements

The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. Independent audits provide essential accountability and transparency for City operations.

The attached comprises our independent audit report on the City's financial statements and compliance with certain provisions of laws, regulations, contracts and grant agreements.

In summary, this audit revealed an alarming disregard for the accountability and transparency that is the foundation for public trust in government. Elected officials and public employees have an obligation to ensure open government, by following the law, their own policies and best practices. Those standards are outlined in this audit, as are several instances in which the city did not follow them.

Multiple audits performed by this Office have highlighted egregious actions of City officials.

I strongly recommend that City officials adhere to their civic responsibilities and work diligently to meet the expectations of their community, and the broader Washington public.

We hope this audit proves valuable to those assessing the government's stewardship of public resources.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and timely reporting.

Background

City management, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

State law (RCW 43.09.230) requires local governments to submit annual financial reports to the State Auditor's Office within 150 days of the end of the fiscal year. As part of the annual financial report, all local governments that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA). Local governments that spend \$750,000 or more in federal funds must receive a federal single audit.

Government Auditing Standards, prescribed by the Comptroller General of United States, requires the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The current audit identified the following deficiencies in internal controls that, when taken together, represent a material weakness:

- The City did not take appropriate action to submit accurate and timely annual reports. The City submitted financial statements on September 25, 2018, which was 118 days after the deadline.
- City staff responsible for financial statement preparation lacked technical knowledge and experience necessary to prepare the financial statements and supplementary schedules accurately and completely in accordance with the *Budgeting, Accounting, and Reporting System (BARS)* manual.
- The City did not establish a secondary review process to detect and correct errors before submitting the annual financial report for audit.

Cause of Condition

The City experienced significant turnover in key positions responsible for preparing the financial statements and did not ensure new staff had the technical proficiency

or adequate training in the BARS manual reporting requirements needed to prepare the financial statements accurately and in a timely manner.

Effect of Condition

As a result of the internal control weaknesses, we identified the following errors:

- The City did not submit its Schedule of Liabilities for audit. As a result, the City understated liabilities by \$8 million.
- The City's original SEFA reported over \$3 million in federal expenditures, which led the City to request a federal single audit. During our audit, we determined the City over-reported its federal expenses by about \$2.5 million. As a result, the City was under the \$750,000 threshold and was not required to receive a federal single audit.
- The City incorrectly classified at least \$656,665 of its ending reserved cash and investments as unreserved.

Additionally, delayed filing of the financial reports prevents the public from obtaining timely information about the City's fiscal operations. It also hinders transparency to citizens and our Office's efforts to compile statistical information for use by the state Legislature and others.

Recommendations

We recommend the City establish and follow effective internal controls over the preparation of the financial statements, which should include:

- Staff obtaining the necessary training to present financial statements accurately and completely
- Reporting the annual financial statements by the required deadline
- Verifying that all federal expenditures are reported accurately on the SEFA before submitting the annual report
- Presenting the Schedule of Liabilities accurately and completely

City's Response

The present Clerk-Treasurer is unable to respond as to the prior year's financial reporting, only to say the City of Wapato is working on the present year reporting and presenting the accounting of the past Clerk-Treasurer in the 2018 Annual Report. The City is cleaning up the past to present a new and productive future.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues identified above and emphasize the importance of establishing effective controls over financial reporting so the public can rely on the financial information provided by management. We will follow up on the status of the finding during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states,

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.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 – Local government accounting – Annual reports – Comparative statistics, states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement; together with such other information as may be required by the state auditor.

Budgeting Accounting and Reporting System (BARS) manual, Internal Control section 3.1.3, states in part:

Purpose and Definition of Internal Controls

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body.

The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting . . .

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules . . .

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor’s Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
 - Only valid transactions are recorded and reported.

- All transactions occurred during the period are recorded and reported.
- Transactions are recorded and reported at properly valued and calculated amounts.
- Recorded and reported transactions accurately reflect legal rights and obligations.
- Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants *Codification of Statements on Auditing Standards*, section 265 – Communicating Internal Controls Related Matter Identified in Audit, paragraph 7, states:

For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-002 The City did not monitor its financial activity, resulting in noncompliance with state law and a significant decline in financial position that places it at risk of not meeting its financial obligations or providing services at current levels.

Background

Until the fall of 2018, the City of Wapato was governed by a seven-member Council and Mayor, who oversaw daily operations. The City then established a new city administrator position in September 2018 to oversee its daily operations. The Clerk-Treasurer is responsible for recording and reporting financial transactions. The City serves about 5,000 citizens and operates on a \$6.6 million annual budget.

Description of Condition

The City’s financial condition declined during the 2017 audit period. Additionally, we examined the City’s financial condition from 2018 through February 2019 and identified a continued decline in the City’s ending cash and investments. Management has not established a formalized plan to improve its financial condition. Also, the City has not fully reconciled bank activity since April 2018 and did not record beginning fund balances in the general ledger to allow for proper monitoring of expenditures, budgets, and available cash.

Financial condition

The City reported a continued decrease in ending cash and investments for its Current Expense Fund, as shown in the table below:

For year ending December 31	2016	2017	2018
Ending cash & investments - Current Expense	\$1,954,288	\$1,288,547	\$75,775

We estimate that ending cash and investments reduced to negative \$41,516 in February 2019.

In addition, the City paid unallowable expenditures in 2018 out of the Garbage and Sewer Funds that should have been paid through the Current Expense Fund. The Garbage and Sewer Fund resources are restricted to only expenses for these activities because these resources come from charges to users. Therefore, they are not allowable for general use of the government. During 2018, the City paid \$125,894 through the Garbage Fund for construction on the swimming pool, and paid \$117,111 through the Sewer Fund for City legal expenses.

Budget compliance/Ending cash and investments

The City Council annually approves a budget that determines the City’s legal spending limits. Under state law (RCW 35.33.121), spending should not exceed this level without a Council-approved budget amendment. The City paid expenditures within funds that did not have available cash and that exceeded approved budgets. For 2017, the City overspent approved budgets for five funds totaling \$755,093 and reported negative cash and investment balances for four funds, totaling \$594,610. This is detailed in the tables below:

2017 fund details

Fund	Amount that expenses exceeded budget	Ending cash and investments
Cemetery Fund	-	(11,177)
Street Fund	220,107	(488,773)
Capital Improvement Fund	340,172	(43,123)
SEID Loan - Valicoff Fruit Fund	123,975	44,144
Garbage Fund	35,107	356,646
Information Technology Rental and Revolving Fund	35,732	(51,537)

For 2018, the City overspent approved budgets for four funds totaling \$266,973 and reported negative cash and investment balances in balances in three funds, totaling \$367,091.

When expenditures in a fund exceed the amount of available resources, the City is borrowing from other funds to continue operations without formally establishing an interfund loan. The Council must approve interfund loans by resolution or ordinance that includes a payment plan and sets a reasonable rate of interest to be paid to the lending fund. If such funds are not repaid in a timely manner, it would represent an unallowable diversion of funds.

We also reported other areas of non-compliance in the 2018 accountability audit report number 1023796, finding number 2018-003.

Cause of Condition

The City has not monitored financial activities to ensure funds have the available resources and budget to cover expenditures before payment. Also, the City is not monitoring that expenses are reported in the correct fund. Further, the City has not acted to improve its financial position.

Effect of Condition

The City did not comply with state laws that had a direct and material effect on the financial statements. Specifically, the City did not follow state budget requirements and used restricted resources for unallowable purposes. Also, the City risks not being able to meet future financial obligations or continue operations at current service levels.

Recommendations

We recommend the City's elected officials and management establish a formal, written comprehensive plan to address the City's financial condition and closely monitor financial operations to ensure it can meet its financial obligations. Also, we recommend the City follow state law. To do this, the City should:

- Obligate expenditures only when funds have the available budget and resources to pay for the transactions and use restricted resources only for allowable purposes
- Establish interfund loans that include appropriate interest rates and repayment plans for funds with negative cash and investments to avoid the permanent diversion of restricted resources

City's Response

The prior Financial Officers did not have municipal experience and did not appear to understand the concept of BARS Fund accounting; therefore, monies allocated for individual funds (i.e. Water, Sewer and Garbage, etc) were spent on general expenses, without performing an Inter-Fund Loan with the interest calculated though a payback date. As a result of these errors in accounting practices, the above mention funds are in the red.

The present Clerk-Treasurer is taking steps to replenish the funds that have improperly managed.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues identified above and emphasize the importance of closely monitoring financial obligations. We will follow up on the status of the finding during the next audit.

Applicable Laws and Regulations

RCW 35.33.121 – Funds – Limitations on expenditures – Transfers, states:

The expenditures as classified and itemized in the final budget shall constitute the city's or town's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the city or town, the expenditure of city or town funds or the incurring of current liabilities on behalf of the city or town shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year, without regard to the individual items contained therein, except that this limitation shall not apply to wage adjustments authorized by RCW 35.33.107; and
- (2) The unexpended appropriation balances of a preceding budget which may be carried forward from prior fiscal years pursuant to RCW 35.33.151; and
- (3) Funds received from the sale of bonds or warrants which have been duly authorized according to law; and
- (4) Funds received in excess of estimated revenues during the current fiscal year, when authorized by an ordinance amending the original budget; and
- (5) Expenditures required for emergencies, as authorized in RCW 35.33.081 and 35.33.091.

Transfers between individual appropriations within any one fund may be made during the current fiscal year by order of the city's or town's chief administrative officer subject to such regulations, if any, as may be imposed by the city or town legislative body. Notwithstanding the provisions of RCW 43.09.210 or of any statute to the contrary, transfers, as herein authorized, may be made within the same fund regardless of the various offices, departments or divisions of the city or town which may be affected.

The city or town legislative body, upon a finding that it is to the best interests of the city or town to decrease, revoke or recall all

or any portion of the total appropriations provided for any one fund, may, by ordinance, approved by the vote of one more than the majority of all members thereof, stating the facts and findings for doing so, decrease, revoke or recall all or any portion of an unexpended fund balance, and by said ordinance, or a subsequent ordinance adopted by a like majority, the moneys thus released may be reappropriated for another purpose or purposes, without limitation to department, division or fund, unless the use of such moneys is otherwise restricted by law, charter, or ordinance.

RCW 43.09.210, states in part:

All service rendered by . . . one department, public improvement, undertaking, institution and public service industry to another, shall be paid for at its true and full value by the department . . . receiving the same, and no department, public improvement, undertaking, institution or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another

Budgeting Accounting and Reporting System (BARS) manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30 states:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government’s performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are

assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

Budgeting, Accounting and Reporting System (BARS) manual, 3.9.1, Loans, states, in part:

This section does not attempt to determine which moneys of a local government may or may not be available for interfund lending, since the special character of some moneys involves commitments and restrictions which would require individual consideration. As a rule of thumb, however, it may be considered permissible to make interfund loans of those moneys which are clearly inactive or in excess of anticipated cash needs throughout the duration of the loan and legally available for investment.

The minimum acceptable procedures for making and accounting for interfund loans are as follows:

1. The legislative body of a local government must, by ordinance or resolution, approve all interfund loans, indicating the lending and borrowing funds, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the local government) to be paid to the lending fund. The planned schedule of repayment should specify the due date(s) of payment(s) needed to repay the principal and interest on the loan.
2. Interest should be charged in all cases, unless:
 - a. The borrowing fund has no other source of revenue other than the lending fund; or
 - b. The borrowing fund is normally funded by the lending fund.
3. The borrowing fund must anticipate sufficient revenues to be able over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.

4. The loan status should be reviewed annually by the legislative body at any open public meeting.
5. 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.)
6. Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by such transactions.

No debt instrument issued by one fund and held by another fund can be consider an investment. Such activity should be accounted for and reported as an interfund loan. Although the accounting treatment for such situations is not specified within a source of authoritative pronouncements, GAAP standards require transactions to be with an external party in order to classify them as other than interfund.

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

**City of Wapato
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Wapato
Wapato, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Wapato, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated May 2, 2019. Our report and Finding 2017-002, in the accompanying Schedule of Audit Findings and Responses, include information on material non-compliance that continues to have an effect on the City's financial condition.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are

appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-002. We also noted certain matters that we have reported to the management of the City in a separate special investigation report dated February 21, 2019.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy
State Auditor
Olympia, WA

May 2, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Wapato January 1, 2017 through December 31, 2017

Mayor and City Council
City of Wapato
Wapato, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Wapato, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 25.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Wapato, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Wapato, as of December 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Material Non-compliance Affecting Fiscal Sustainability

As described in Finding 2017-002, our audit found that the City did not monitor its financial activity, resulting in material non-compliance with state law and a significant decline in financial position. This condition continues to exist and to have a significant effect on the City's financial condition. Our opinion is not modified with respect to this matter.

City's Response to Finding

The City's response to the finding identified above is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

May 2, 2019

FINANCIAL SECTION

City of Wapato January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

City of Wapato
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		<u>Total for All Funds (Memo Only)</u>	<u>001 Current Expense Fund</u>	<u>101 Street Fund</u>
Beginning Cash and Investments				
30810	Reserved	967,051	36,017	428,137
30880	Unreserved	4,191,374	1,918,272	(15,497)
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	2,228,255	2,037,659	174,187
320	Licenses and Permits	88,379	87,054	125
330	Intergovernmental Revenues	1,582,355	201,965	765,410
340	Charges for Goods and Services	3,794,968	502,228	-
350	Fines and Penalties	42,218	42,218	-
360	Miscellaneous Revenues	916,250	112,444	1,821
Total Revenues:		<u>8,652,426</u>	<u>2,983,567</u>	<u>941,543</u>
Expenditures				
510	General Government	993,984	847,069	850
520	Public Safety	2,475,616	2,475,616	-
530	Utilities	2,929,506	-	-
540	Transportation	707,330	-	205,076
550	Natural and Economic Environment	96,615	75,536	-
560	Social Services	1,357	1,357	-
570	Culture and Recreation	192,164	192,164	-
Total Expenditures:		<u>7,396,571</u>	<u>3,591,742</u>	<u>205,925</u>
Excess (Deficiency) Revenues over Expenditures:		<u>1,255,854</u>	<u>(608,174)</u>	<u>735,617</u>
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	12,157	-	-
397	Transfers-In	162,171	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	81,868	57,491	-
381, 395, 398	Other Resources	25,180	-	13,550
Total Other Increases in Fund Resources:		<u>281,377</u>	<u>57,491</u>	<u>13,550</u>
Other Decreases in Fund Resources				
594-595	Capital Expenditures	2,400,259	21,460	1,488,410
591-593, 599	Debt Service	865,923	38,577	-
597	Transfers-Out	162,171	-	162,171
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	60,947	55,021	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		<u>3,489,301</u>	<u>115,058</u>	<u>1,650,581</u>
Increase (Decrease) in Cash and Investments:		<u>(1,952,070)</u>	<u>(665,741)</u>	<u>(901,414)</u>
Ending Cash and Investments				
5081000	Reserved	124,769	70,505	(488,773)
5088000	Unreserved	3,081,407	1,218,042	-
Total Ending Cash and Investments		<u>3,206,176</u>	<u>1,288,547</u>	<u>(488,773)</u>

The accompanying notes are an integral part of this statement.

170 CDBG Rehabilitation Fund	225 Debt Service/Wapato Ave LID	230 SEID Loan- Valicoff Fruit	309 Capital Improvement Fund	401 Water Fund	402 Sewer Fund
89,201	37,719	10,652	36,875	-	-
-	-	-	-	1,190,944	70,833
-	-	-	-	-	-
-	-	-	14,766	-	-
-	-	-	-	1,200	-
80	-	-	238,691	19,941	356,267
-	-	-	6,384	962,162	1,496,379
-	-	-	-	-	-
700	293	8,138	332	11,158	12,962
780	293	8,138	260,174	994,461	1,865,607
-	-	-	-	1,976	12,296
-	-	-	-	-	-
-	-	-	-	939,773	1,164,199
-	-	-	-	-	-
7,800	-	-	-	9,003	-
-	-	-	-	-	-
-	-	-	-	-	-
7,800	-	-	-	950,752	1,176,495
(7,020)	293	8,138	260,173	43,709	689,113
-	-	12,157	-	-	-
-	-	162,171	-	-	-
-	-	-	-	-	-
10,750	-	-	-	6,350	-
-	-	-	-	5,395	100
10,750	-	174,329	-	11,745	100
-	-	-	340,172	433,610	-
-	-	148,975	-	-	678,371
-	-	-	-	-	-
-	-	-	-	4,266	-
-	-	-	-	-	-
-	-	148,975	340,172	437,877	678,371
3,730	293	33,492	(79,999)	(382,423)	10,842
92,930	38,012	44,144	(43,123)	-	-
-	-	-	-	808,521	81,674
92,930	38,012	44,144	(43,123)	808,521	81,674

403 Garbage Fund	404 Cemetery Fund	501 Equipment Rental & Revolving	502 Public Works Service Center	503 Information Technology Rental & Revolving	701 Cemetery Perpetual Endowment
-	-	-	-	-	328,450
318,642	20,587	473,009	129,234	12,649	72,701
-	-	-	-	-	-
-	1,644	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
749,071	78,744	-	-	-	-
-	-	-	-	-	-
4,149	804	276,438	334,520	149,346	3,145
<u>753,220</u>	<u>81,192</u>	<u>276,438</u>	<u>334,520</u>	<u>149,346</u>	<u>3,145</u>
-	-	-	-	131,793	-
-	-	-	-	-	-
715,592	109,942	-	-	-	-
-	-	183,433	318,820	-	-
-	-	-	4,276	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>715,592</u>	<u>109,942</u>	<u>183,433</u>	<u>323,096</u>	<u>131,793</u>	<u>-</u>
<u>37,628</u>	<u>(28,750)</u>	<u>93,005</u>	<u>11,424</u>	<u>17,553</u>	<u>3,145</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
500	-	-	-	-	6,777
-	-	6,135	-	-	-
<u>500</u>	<u>-</u>	<u>6,135</u>	<u>-</u>	<u>-</u>	<u>6,777</u>
-	1,480	33,389	-	81,739	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
125	1,535	-	-	-	-
-	-	-	-	-	-
<u>125</u>	<u>3,014</u>	<u>33,389</u>	<u>-</u>	<u>81,739</u>	<u>-</u>
38,003	(31,764)	65,751	11,424	(64,186)	9,922
-	-	-	-	-	411,074
356,646	(11,177)	538,759	140,478	(51,537)	-
<u>356,646</u>	<u>(11,177)</u>	<u>538,759</u>	<u>140,478</u>	<u>(51,537)</u>	<u>411,074</u>

City of Wapato
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	Agency
308	Beginning Cash and Investments	4,814	4,814
388 & 588	Prior Period Adjustment, Net	-	-
310-390	Additions	120,995	120,995
510-590	Deductions	103,443	103,443
Net Increase (Decrease) in Cash and Investments:		17,552	17,552
508	Ending Cash and Investments	22,366	22,366

The accompanying notes are an integral part of this statement.

City of Wapato
Notes to the Financial Statements
For the year ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

The City of Wapato was incorporated on August 31, 1908 and operates under the laws of the state of Washington applicable to a second-class city. The City of Wapato is a general purpose local government and provides general administrative services, public safety, municipal court, jail facility, fire prevention, parks, street improvements, water, sewer, garbage services and cemetery.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

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.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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 government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting 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 City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City adopts annual appropriated budgets for general, special revenue, capital project, and enterprises funds. These budgets are appropriated at the fund level except the general (current expense) fund, where budget is adopted at the department 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:

FUND/DEPARTMENT	FINAL APPROPRIATED	ACTUAL EXPENDITURE	BALANCE
Current Expense Fund			
Administration	873360	867,745	5615
Law Enforcement	2269270	2077556	191713
Fire Department	359260	331572	27688
Recreation	23615	50254	-26,639
Public Works	236440	208635	27805
Non-Expenditures	0	55021	-55020
Jail Profit Managerial Fund	1064	15000	13936
3/10's of 1% Yakima CO Tax CE Managerial Fund	110000	109650	350
Community Outreach Managerial Fund	3000	5242	-2242
Street Fund	236620	205112	31508
Street Construction Managerial Fund	1399780	1651395	-251615
CDBG Rehabilitation Fund	8300	7800	500
Debt Service/Wapato Ave LID	3500	0	3500
SEID Loan-Valicoff Fruit	25000	148975	-123975
Capital Improvement Fund	0	340172	-340172
Water Fund	1081295	919492	161803
Sewer Fund	1420800	1441691	-20891
Garbage Fund	680610	715717	-35107
Cemetery Fund	146540	112956	33584
Water Construction Managerial Fund	460400	469137	-8737
Sewer Construction Managerial Fund	1354900	413175	941725
Equipment Rental & Revolving	360730	216823	89907
Public Works Service Center	364510	323275	41235
Information Technology Rental & Revolving	177800	213532	-35732
TOTAL	11596794	10,899,927	670739

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 City legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 30 days (or 240 hours) and is payable upon separation or retirement. Vacation leave may be accumulated up to 320 hours by the WSCCCE union contract but up to 240 hours are paid out when the employee separates. All vacation is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours for the Teamsters union contracts, up to 1152 hours for the federation union contract, and there is no cap for management group. Upon separation or retirement employees do not receive payment for unused sick leave.

G. Long-Term Debt

H. Risk Management

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

The AWC RMSA allows members to establish a program of joint insurance and

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

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits, an excess liability policy is purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2016, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

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

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

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

The City of Wapato is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of

insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a

minimum of 60 days prior to termination. A participating employer’s termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

I. 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 ordinance. When expenditures that meet restrictions are incurred, the City of Wapato intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

Fund	Title	Amount
002	Jail Commissary	\$3,431.29
003	3/10's of 1% Yakima County Sales Tax	\$67,073.42
101	Streets	\$121,769
102	Street Construction	-610,542
170	Rehab Loans	\$92,930
225	LID	\$38,012
230	SIED Loan	\$44,144
309	Capital Projects	-43,123
701	Cemetery Perpetual	\$411,074

Note 2 – Deposits and Investments

It is the City 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 City of Wapato or its agent in the government’s name.

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

Type of Investment	City of Wapato	Total
LGIP	\$2,118,684.87	\$2,118,684.87
<u>US Government Securities</u>	<u>\$992,965.50</u>	<u>\$992,965.50</u>
TOTAL	\$1,125,719.37	\$1,125,719.37

Note 3 - Property Tax

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

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

The City regular levy for the year 2017 was \$506,125.76.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2017:

Borrowing Fund	Lending Fund	Balance 1/1/2017	New Loans	Repayments	Balance 12/31/2017
001	410	<u>\$55,000.00</u>	<u>\$0</u>	<u>\$0.00</u>	<u>\$55,000.00</u>
	TOTALS	\$55,000.00	\$0	\$0.00	\$55,000.00

Resolution 2016-18

Note 5 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Wapato and summarizes the City debt transactions for year ended December 31, 2017.

The debt service requirements for general obligation bonds and revenue bonds are as follows:

	Principal	Interest	Total
2017	\$171,969.25	\$168,929.15	\$340,898.40
2018	\$176,370.77	\$164,527.67	\$340,898.44
2019	\$180,906.34	\$159,992.07	\$340,898.41
2020	\$185,188.16	\$155,710.25	\$340,898.41
2021-2025	\$963,287.43	\$702,627.44	\$1,665,914.87
2026-2030	\$913,379.32	\$598,226.92	\$1,511,606.24
2031-2035	\$882,280.26	\$505,179.74	\$1,387,460.00

2036-2040	\$974,413.26	\$413,046.74	\$1,387,460.00
2041-2045	\$1,076,674.49	\$310,785.51	\$1,387,460.00
2046-2050	\$1,189,367.21	\$198,092.79	\$1,387,460.00
2051-2055	\$1,313,856.51	\$73,603.49	\$1,387,460.00
2056-2060	<u>\$2,600.22</u>	<u>\$25.93</u>	<u>\$2,626.15</u>
	<u>\$8,030,293.22</u>	<u>\$3,450,747.70</u>	<u>\$11,481,040.92</u>

Note 6 – Pension Plans

Substantially all City full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans; PERS II and III, PSERS, and LEOFF II.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The City of Wapato also participates in the Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

LEOFF Plan 1

The City of Wapato also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

The City of Wapato also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding

Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 7 - Other Disclosures

Compliance and Accountability: There have been expenditures exceeding legal appropriations in funds of the City of Wapato. They are:

- Community Outreach (\$2,241.99)
- Street Construction Fund (\$251,614.76)
- SIED (123,975.32)
- Capital Improvement Fund (\$340,171.58)
- Sewer Fund (\$20,890.68)
- Garbage Fund (\$35,107.01)
- Water Construction Fund (\$8,737.14)
- Information Technology Rental & Tech (\$35,731.96)

Reporting Funds and Management Funds: The following management funds were combined with their reporting fund for the 2017 Annual Report.

<u>Managerial Fund</u>	<u>Reporting Fund</u>
002 Jail Profit	001 Current Expense
003 3/10's of 1% Yakima County Sales Tax	001 Current Expense
004 Community Outreach	001 Current Expense
005 General Fund Reserve	001 Current Expense
102 Street Construction Fund	101 Streets
410 Water Construction	401 Water Fund
420 Sewer Construction	402 Sewer Fund

OPEB: The City of Wapato has a commitment to pay for post-employment benefits for employees that belong to LEOFF I. These benefits include medical, vision, long-term care, and any other health care required by law. Three retirees received benefits during the year. The costs for those benefits were \$24,302.56.

**City of Wapato
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.85	SIED Loan- Yakima County	6/1/2025	286,296	-	109,775	176,521
263.96	Local - Fire Truck	6/1/2024	254,406	-	26,520	227,886
Total General Obligation Debt/Liabilities:			540,702	-	136,295	404,407
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2017	61,459	52,186	54,979	58,666
264.30	Net Pension Liability	12/31/2017	1,130,994	224,023		976,616
263.82	USDA Road WWTP Loan	5/19/2056	7,489,592		128,359	7,361,233
Total Revenue and Other (non GO) Debt/Liabilities:			8,682,045	276,209	183,338	8,396,515
Total Liabilities:			9,222,747	276,209	319,633	8,800,922

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov