



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

### City of Ritzville

Adams County

For the period January 1, 2015 through December 31, 2015

Published September 22, 2016

Report No. 1017467





## Washington State Auditor's Office

September 22, 2016

Mayor and City Council  
City of Ritzville  
Ritzville, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Ritzville's financial statements and compliance with federal laws and regulations.

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

Sincerely,

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

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Ritzville**  
**Adams County**  
**January 1, 2015 through December 31, 2015**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Ritzville are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

##### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

#### Federal Awards

##### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**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 Ritzville  
Adams County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Ritzville  
Ritzville, 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 Ritzville, Adams County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 31, 2016.

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## COMPLIANCE AND OTHER MATTERS

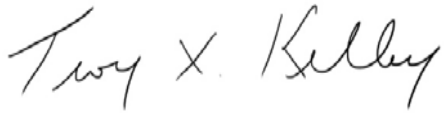
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

## PURPOSE OF THIS REPORT

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

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

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

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

August 31, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Ritzville  
Adams County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Ritzville  
Ritzville, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Ritzville, Adams County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

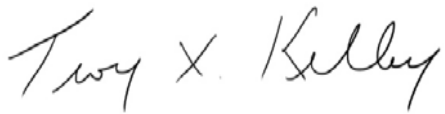
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

August 31, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Ritzville Adams County January 1, 2015 through December 31, 2015

Mayor and City Council  
City of Ritzville  
Ritzville, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Ritzville, Adams County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

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

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

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the City of Ritzville 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 Ritzville, for the year ended December 31, 2015, 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 Ritzville, as of December 31, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Other Matters**

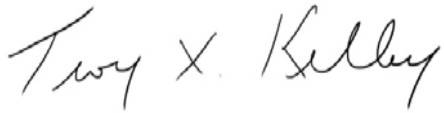
### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* / Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 August 31, 2016 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 black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

August 31, 2016

## **FINANCIAL SECTION**

**City of Ritzville  
Adams County  
January 1, 2015 through December 31, 2015**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2015  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015  
Notes to Financial Statements – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2015  
Schedule of Expenditures of Federal Awards – 2015  
Notes to the Schedule of Expenditures of Federal Awards – 2015



**City of Ritzville**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>001 Current Expense</b>	<b>103 City Streets</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	392,351	62,593	20,829
30880	Unreserved	4,656,200	1,038,335	78,356
388 & 588	Prior Period Adjustments, Net	-	-	-
<b>Operating Revenues</b>				
310	Taxes	1,181,175	1,022,403	83,129
320	Licenses and Permits	47,352	46,922	430
330	Intergovernmental Revenues	1,005,916	914,108	67,809
340	Charges for Goods and Services	1,783,410	86,280	-
350	Fines and Penalties	27,270	15,592	-
360	Miscellaneous Revenues	69,118	51,765	4,955
Total Operating Revenues:		4,114,240	2,137,070	156,323
<b>Operating Expenditures</b>				
510	General Government	398,186	398,186	-
520	Public Safety	492,420	492,420	-
530	Utilities	1,040,831	59,730	-
540	Transportation	224,041	5,418	218,623
550	Natural and Economic Environment	7,651	7,651	-
560	Social Services	1,867	1,867	-
570	Culture and Recreation	197,499	145,101	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		2,362,495	1,110,373	218,623
Net Operating Increase (Decrease):		1,751,745	1,026,697	(62,300)
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	10,357	7,976	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	604,250	205,000	103,750
Total Nonoperating Revenues:		614,607	212,976	103,750
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	676	-	-
591-593	Debt Service	297,155	30,209	-
594-595	Capital Expenditures	1,362,720	1,118,396	89,565
597	Transfers-Out	614,250	189,250	-
Total Nonoperating Expenditures:		2,274,800	1,337,854	89,565
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>91,551</b>	<b>(98,182)</b>	<b>(48,115)</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	537,277	57,627	-
5088000	Unreserved	4,602,447	944,734	51,069
<b>Total Ending Cash and Investments</b>		<b>5,139,724</b>	<b>1,002,361</b>	<b>51,069</b>

*The accompanying notes are an integral part of this statement.*

<b>110 Performing Arts/tourism</b>	<b>401 Water</b>	<b>403 Sanitation</b>	<b>408 Sewer</b>	<b>500 Equipment Rental &amp; Revolving</b>
92,793	14,930	-	201,206	-
-	1,794,420	96,426	1,046,520	602,144
-	-	-	-	-
75,643	-	-	-	-
-	-	-	-	-
-	24,000	-	-	-
-	701,998	383,978	611,154	-
-	11,678	-	-	-
18	9,927	261	1,291	901
<b>75,660</b>	<b>747,603</b>	<b>384,239</b>	<b>612,446</b>	<b>901</b>
-	-	-	-	-
-	-	-	-	-
-	417,684	327,734	235,682	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
52,398	-	-	-	-
-	-	-	-	-
<b>52,398</b>	<b>417,684</b>	<b>327,734</b>	<b>235,682</b>	<b>-</b>
<b>23,262</b>	<b>329,919</b>	<b>56,505</b>	<b>376,764</b>	<b>901</b>
-	2,381	-	-	-
-	-	-	-	-
-	234,000	-	-	61,500
-	<b>236,381</b>	-	-	<b>61,500</b>
-	676	-	-	-
-	-	-	266,946	-
4,489	150,270	-	-	-
5,000	275,000	40,000	105,000	-
9,489	425,946	40,000	371,946	-
<b>13,773</b>	<b>140,354</b>	<b>16,505</b>	<b>4,818</b>	<b>62,401</b>
106,565	166,642	-	206,443	-
-	1,783,066	112,930	1,046,103	664,544
<b>106,565</b>	<b>1,949,708</b>	<b>112,930</b>	<b>1,252,546</b>	<b>664,544</b>

The accompanying notes are an integral part of this statement.

**City of Ritzville**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>635 PDA Agency Fund</b>	<b>636 Helping Others</b>
308	Beginning Cash and Investments	746	-	746
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	161	-	161
380-390	Other Increases and Financing Sources	10,000	10,000	-
510-570	Expenditures	10,000	10,000	-
580-590	Other Decreases and Financing Uses	458	-	458
Net Increase (Decrease) in Cash and Investments:		(297)	-	(297)
508	Ending Cash and Investments	449	-	449

*The accompanying notes are an integral part of this statement.*

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Ritzville was incorporated for the first time in the last few months of 1888 under the laws of Washington Territory. The City of Ritzville was incorporated in July of 1890 and operates under the laws of the State of Washington applicable to a second class city with a mayor-council form of government. The City is a general purpose government and provides law enforcement, fire protection, water, sewer, and garbage utility services.

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

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

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund 001

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

Special Revenue Funds (100's)

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

PROPRIETARY FUND TYPES

Enterprise Funds (400's)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

Internal Service Funds (500's)

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

FIDUCIARY FUND TYPES

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

Agency Funds (600's)

These funds are used to account for assets that the city holds for 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 year.

c. Budgets

The city 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:

Fund/Department	Final Appropriation Amounts	Actual Expenditures	Variance
001 Current	\$2,897,032.00	\$2,448,158.00	\$448,874.00
103 Streets	\$332,325.00	\$308,188.00	\$24,137.00
110 Tourism	\$81,500.00	\$61,887.00	\$19,613.00
401 Water	\$4,070,600.00	\$843,630.00	\$3,226,970.00
403 Sanitation	\$355,500.00	\$367,734.00	-\$12,234.00
408 Sewer	\$1,144,000.00	\$607,628.00	\$536,372.00
500 Equipment Rental	\$378,700.00	\$0.00	\$378,700.00
635 PDA Agency	\$10,000.00	\$10,000.00	\$0.00
636 Helping Others	\$400.00	\$458.22	-\$58.22
<b>Grand Totals</b>	<b>\$9,270,057.00</b>	<b>\$4,647,683.22</b>	<b>\$4,622,373.78</b>

\*For reporting purposes only to match financial statements

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

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's legislative body.

d. Cash

See Note 2 Deposits and Investments

e. Capital Assets

Capital assets are long-lived assets of the city and are recorded as capital outlays or expenditures when purchased. Council has not set a threshold at this time.

f. Compensated Absences

Vacation pay may be accumulated up to 21 days per year and is payable upon separation, retirement, or death.

Sick leave may accumulate up to 720 hours. Those employees hired before January 1, 1995 will receive one half of 720 hours upon resignation, retirement or death. There are nine employees who were hired after 1/1/1995.

As of January 2001, sick leave may accumulate up to 960 hours. However, all employees that are due the benefit at retirement, death, or leaving the City will only be able to redeem up to 720 hours of sick leave.

As of January 2001, the employees were offered a sick leave buy out. Sick leave buy-out will be offered to all employees once a year to reduce that benefit accordingly. 480 hours will be maintained in sick leave. The buy-out will be at one day of regular hourly pay for three days of sick leave (or .334) up to 96 hours per year. The Clerk/Treasurer will notify all employees of how many hours from the previous year are eligible to be cashed in and the value of those hours in the first two weeks of January. The employee will tell the Clerk/Treasurer how much of the buy-out they will participate in, if any, by returning the Sick Leave Buy-out Form no later than January 20th. The buy-out will be included in the regular January payroll warrants.

g. Long-term Debt

See Note 4 Debt Service Requirements

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

h. Other Financing Sources or Uses

The city's "Other Financing Sources or Uses" are:

- Proceeds of Long-term Debt
  - General Obligation Bonds
  - LID Bond Proceeds
- Proceeds of Refunding Long-term Debt
- Proceeds from Sale of Fixed Assets
- Insurance Recoveries
- Operating Transfers In
- Debt Service
  - Redemption of Long-term Debt
  - Interest and other Debt Service Costs
- Operating Transfers Out

i. Risk Management

The City of Ritzville is a member of the Cities Insurance Association of Washington. 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 pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2015, there are 210 members in the pool.

The pool provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The pool acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,140,107.

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The pool bears the \$25,000 self-insured retention in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of Pumps & Motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by CIAW.

Members contract to remain in the pool for a minimum of one year, and must give notice before December 1, to terminating participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and administration, and loss-prevention for the program. Fees paid to the third part administrator under this arrangement for the year ending December 1, 2015, were \$627,702.49.

j. Reserved Portion of Ending Cash and Investments:

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

Reservations of Ending Cash and Investments consist of \$537,277 as of December 31, 2015 as follows:

FUND	AMOUNT	RESTRICTED BY
General Fund	\$ 57,627.00	REET per RCW 35.43.40
Performing Arts/Tourism	\$ 106,565.00	Hotel/Motel Tax per RCW 67.28
Water	\$ 166,642.00	By Council resolution/ordinance
Sewer	\$ 206,443.00	By Council resolution/ordinance

- k. Fund Roll-ups: For the purposes of consistency, the city has determined the funds to be rolled up and their main fund as follows: Fund 001 roll up funds 002, 003, 104, 112, 120, 214, 215, 301, 102 and 123; 401 Water Department roll up funds 402, 416, 418, 424; and 408 Sewer Department roll up funds 423 and 425.



City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

**NOTE 2 - INVESTMENTS**

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds. All deposit and certificates of deposit are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the city or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2015 are as follows:

Type of Investment	City's own Investment Balance	Investments held by city as an agent for other local governments, individuals or private organizations	Total
LGIP	\$2,617,382.34	\$ 0.00	\$2,617,382.34
CD	0.00	0.00	0.00
US Government Securities	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>\$2,617,382.34</u>	<u>\$ 0.00</u>	<u>\$2,617,382.34</u>

**NOTE 3 - PROPERTY TAX**

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

Property tax revenues are recognized as cash when received by the city. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied.

The city's regular levy for 2015 was \$2.849553 per \$1,000 on an assessed valuation of \$103,536,246 for a total regular levy of \$295,032.

**NOTE 4 - DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Liabilities (09) provides a listing of the outstanding debt of the city and summarizes the city's debt transitions for December 31, 2015. Per the 2012-2013 Audit, we have included the debt for our Drinking Water State Revolving Fund. The amount reported is only that of our current year expense and only at the 70% that is loan funded. The other 30% is deemed forgivable loan. This fund has not been closed and therefore we are reporting on the schedule 09 as requested by the auditor.

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

The debt service requirements for general obligations bonds, revenue bonds and loans, including interest, are as follows:

	General Obligation Bonds	Other Debt	Totals
2016	29,936	266,509	296,445
2017	29,936	265,852	295,788
2018	29,936	265,195	295,131
2019	14,968	198,853	213,821
2020	-	198,853	198,853
2021 to 2025	-	994,268	994,268
2026 to 2030	-	974,487	974,487
2031 to 2035	-	193,202	193,202
2035 to 2040	-	-	-
Totals	104,776	3,357,219	3,461,995

**NOTE 5 - PENSION PLANS**

Substantially all city full-time and qualifying part-time employees participate in LEOFF II, PERS I, or PERS II administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the city'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 at:

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

The city 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](http://www.ofm.wa.gov).

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

At June 30, 2015, the city's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.003479%	\$181,984
PERS 2/3	.004496%	\$160,645
LEOFF 1	.001552%	\$(18,705)
LEOFF 2	.007388%	\$(75,934)
VFFRPF	.260000%	\$(50,341)

**LEOFF Plan 1**

The city does not have any officers currently enrolled 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 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 6 - OTHER DISCLOSURES**

**A. COMPONENT UNITS OR JOINT VENTURES**

The City of Ritzville appoints members to the Ritzville Public Development Authority (RPDA). The RPDA was created to administer and execute federal grants or programs; receive and administer private funds, goods or services for any lawful public purpose; and perform any lawful public purpose or public function within the limits of the incorporated area of the City of Ritzville or hereafter amended. The RPDA is an independent legal entity exclusively responsible for its own debts, obligations and liabilities. All liabilities incurred by the authority shall be satisfied exclusively from the assets and credit of the authority; no creditor or other person shall have any recourse to the assets, credit or services of the city on account of any debts, obligations, liabilities, acts, or omissions of the authority.

City of Ritzville  
NOTES TO FINANCIAL STATEMENTS  
Year Ending December 31, 2015

**B. CORRECTIONS DUE TO AUDIT**

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the city. Due to the audit for 2013-2014, there have been some modifications to the reporting based on the compliance of the audit. Some changes have occurred throughout the audit year and clarifications have been made. Those changes have been noted within these financial notes.

We have made some changes to the BARS Accounting system due to changes in the manual. We are diligently working to minimize these corrections during our audits by attending workshops and trainings. Some of the most significant changes this year were due to the provisions of roll-up funds and reserve balances. We made some changes and are reflected throughout our notes above.

**City of Ritzville**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	2007 GO Bond	6/1/2019	120,382	-	24,310	96,072
263.81	PWTF Loan	7/31/2019	262,736	-	65,684	197,052
263.81	2008 DOE Loan	5/30/2027	64,244	-	4,703	59,541
263.81	2012 DOE Loan	5/30/2031	2,770,814	-	138,245	2,632,569
263.81	DWSRF Loan	10/1/2035	1,412,855	-	-	1,412,855
263.81	DWSRF Loan	10/1/2035	1,539,052	-	-	1,539,052
<b>Total General Obligation Debt/Liabilities:</b>			<b>6,170,083</b>	<b>-</b>	<b>232,943</b>	<b>5,937,140</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		115,701	98,145	93,644	120,203
264.30	Pension Liabilities		-	342,629	-	342,629
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>115,701</b>	<b>440,774</b>	<b>93,644</b>	<b>462,832</b>
<b>Total Liabilities:</b>			<b>6,285,784</b>	<b>440,774</b>	<b>326,586</b>	<b>6,399,972</b>

**City of Ritzville**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0057-007	-	121,092	121,092	-
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0057-008	-	724,772	724,772	-
<b>Total CFDA 20.106:</b>				-	<b>845,864</b>	<b>845,864</b>	-
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPE-1090(008)	4,027	-	4,027	-
<b>Total Highway Planning and Construction Cluster:</b>				<b>4,027</b>	<b>-</b>	<b>4,027</b>	-
<b>Drinking Water State Revolving Fund Cluster</b>							
Office Of Water, Environmental Protection Agency (via WA State Dept of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM11-952-031	57,962	-	57,962	Note 4
Office Of Water, Environmental Protection Agency (via WA State Dept of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM11-952-032	92,308	-	92,308	Note 4
<b>Total Drinking Water State Revolving Fund Cluster:</b>				<b>150,270</b>	<b>-</b>	<b>150,270</b>	-
<b>Total Federal Awards Expended:</b>				<b>154,297</b>	<b>845,864</b>	<b>1,000,161</b>	-

## **CITY OF RITZVILLE**

### **Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2015**

Notes 1, 2 and 7 are required for all entities. Disclose other notes only if applicable to the government's circumstances.

**Note 1 – Basis of Accounting**

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the cash basis of accounting.

**Note 2 – Program Costs**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 4 – Federal Loans**

The city was approved by the EPA and the PWB to receive a loan totaling \$5,893,000 to improve its drinking water system. The amount listed for this loan includes the proceeds used during the year.

Both the current and prior year loans are also reported on the city's Schedule of Liabilities.

**Note 7 – Indirect Cost Rate**

The city has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>