



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

**Financial Statements Audit Report**

**City of Colville**

**Stevens County**

**For the period January 1, 2016 through December 31, 2016**

**Published November 16, 2017**

**Report No. 1020198**





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

November 16, 2017

Mayor and City Council  
City of Colville  
Colville, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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

**City of Colville  
Stevens County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Colville  
Colville, 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 Colville, Stevens County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 26, 2017.

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 "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

October 26, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Colville Stevens County January 1, 2016 through December 31, 2016

Mayor and City Council  
City of Colville  
Colville, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Colville, Stevens County, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

#### 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 Colville 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 Colville, for the year ended December 31, 2016, 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 Colville, as of December 31, 2016, 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 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 October 26, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

October 26, 2017

## **FINANCIAL SECTION**

**City of Colville  
Stevens County  
January 1, 2016 through December 31, 2016**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2016  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016  
Notes to Financial Statements – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2016

**City of Colville**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>001 CURRENT EXPENSE FUND</b>	<b>102 LIBRARY FUND</b>	<b>108 PARKING &amp; BUSINESS IMPROVEMENT</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	5,171,783	1,076,035	14,075	88,760
30880	Unreserved	6,570,236	1,624,305	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	4,044,254	3,939,718	-	-
320	Licenses and Permits	51,821	51,821	-	-
330	Intergovernmental Revenues	1,681,602	1,244,587	-	-
340	Charges for Goods and Services	4,617,124	201,610	4,697	-
350	Fines and Penalties	46,825	19,083	2,083	1,515
360	Miscellaneous Revenues	277,067	85,233	5,616	27,908
Total Revenues:		10,718,693	5,542,052	12,396	29,423
<b>Expenditures</b>					
510	General Government	678,177	659,147	-	-
520	Public Safety	1,547,828	1,547,828	-	-
530	Utilities	2,394,348	-	-	-
540	Transportation	1,213,506	1,200,449	-	13,057
550	Natural and Economic Environment	363,683	325,096	-	1,500
560	Social Services	25,371	25,371	-	-
570	Culture and Recreation	796,798	507,562	178,416	1,500
Total Expenditures:		7,019,711	4,265,453	178,416	16,057
Excess (Deficiency) Revenues over Expenditures:		3,698,982	1,276,599	(166,020)	13,366
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	157,446	-	157,446	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	69,023	66,473	334	-
381, 395, 398	Other Resources	927,062	927,058	5	-
Total Other Increases in Fund Resources:		1,153,531	993,531	157,785	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	4,982,479	2,916,172	-	-
591-593, 599	Debt Service	1,335,934	48,125	-	-
597	Transfers-Out	157,446	157,446	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	74,032	73,650	382	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		6,549,890	3,195,393	382	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(1,697,378)</b>	<b>(925,263)</b>	<b>(8,617)</b>	<b>13,366</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	4,359,859	266,559	5,452	102,126
5088000	Unreserved	5,684,783	1,508,518	5	-
<b>Total Ending Cash and Investments</b>		<b>10,044,642</b>	<b>1,775,077</b>	<b>5,457</b>	<b>102,126</b>

The accompanying notes are an integral part of this statement.

**City of Colville**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>112 HOTEL- MOTEL EXCISE FUND</b>	<b>140 DRUG INVESTIGATION FUND</b>	<b>203 LID 99-1 DEBT FUND SERVICE</b>	<b>401 WATER/SEWER FUND</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	187,618	47,008	-	709,443
30880	Unreserved	-	-	51,615	4,753,463
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	104,536	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	436,743
340	Charges for Goods and Services	-	-	-	4,385,331
350	Fines and Penalties	-	1,497	63	22,584
360	Miscellaneous Revenues	942	222	3,651	123,936
Total Revenues:		105,478	1,719	3,714	4,968,593
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	2,394,348
540	Transportation	-	-	-	-
550	Natural and Economic Environment	37,087	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	77,357	-	-	-
Total Expenditures:		114,445	-	-	2,394,348
Excess (Deficiency) Revenues over Expenditures:		(8,967)	1,719	3,714	2,574,246
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	2,193
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	2,193
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	2,066,307
591-593, 599	Debt Service	-	-	-	1,287,763
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	-	3,354,070
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(8,967)</b>	<b>1,719</b>	<b>3,714</b>	<b>(777,631)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	178,651	48,727	-	709,444
5088000	Unreserved	-	-	55,329	3,975,831
<b>Total Ending Cash and Investments</b>		<b>178,651</b>	<b>48,727</b>	<b>55,329</b>	<b>4,685,275</b>

**City of Colville**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>506 FUTA FUND</b>	<b>701 DEAN VAAGEN MEMORIAL</b>	<b>702 SPENCER MEMORIAL PARK/REC</b>	<b>703 VINSON FUND</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	100,000	358,844	2,590,000
30880	Unreserved	97,109	1,864	10,194	31,685
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	272	-	-
340	Charges for Goods and Services	25,036	450	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	472	481	28,606
Total Revenues:		25,036	1,194	481	28,606
<b>Expenditures</b>					
510	General Government	19,030	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	454	64	31,444
Total Expenditures:		19,030	454	64	31,444
Excess (Deficiency) Revenues over Expenditures:		6,006	740	417	(2,838)
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	23	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	23	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	46	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	46	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>6,006</b>	<b>717</b>	<b>417</b>	<b>(2,838)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	100,000	358,900	2,590,000
5088000	Unreserved	103,115	2,581	10,556	28,848
<b>Total Ending Cash and Investments</b>		<b>103,115</b>	<b>102,581</b>	<b>369,456</b>	<b>2,618,848</b>

**City of Colville**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>624 DONATION FUND</b>
308	Beginning Cash and Investments	29,095	29,095
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	1,366	1,366
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	1,122	1,122
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	244	244
508	Ending Cash and Investments	29,341	29,341

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

## **NOTES TO FINANCIAL STATEMENTS**

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

The City of Colville was incorporated on June 7, 1890 and operates under the laws of the state of Washington applicable to an elected Mayor/Council form of government. The city is a general-purpose government and provides police, fire, airport, water supply treatment distribution, sewage collection treatment, street maintenance, planning and zoning, library, parks and recreation, and general administrative services.

The City of Colville 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**

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

##### **Special Revenue Funds**

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

##### **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.

### **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 City of Colville on a cost-reimbursement basis.

### **FIDUCIARY FUND TYPES:**

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

#### **Private-Purpose Trust Funds**

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

## **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 of Colville 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 of Colville adopts biennial appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for these funds lapse at the fiscal year-end.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:



Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
#001-Current Expense	\$3,407,822	\$ 3,340,364	\$ 67,458
#101-Street Fund	\$4,091,118	\$ 4,046,832	\$ 44,286
#102-Library Fund	\$ 184,519	\$ 178,416	\$ 6,103
#108-Parking/Business	\$ 18,810	\$ 16,057	\$ 2,753
#112-Hotel/Motel	\$ 128,361	\$ 114,445	\$ 13,916
#140-Drug Invest Fund	\$ 0	\$ 0	\$ 0
#201-GO Debt Fund	\$ 48,130	\$ 48,125	\$ 5
#203-LID #99-1 Fund	\$ 0	\$ 0	\$ 0
#401-Water/Sewer Fund	\$6,142,929	\$5,718,315	\$ 424,614
#403-Storm Water Utility	\$ 161,800	\$ 83,905	\$ 77,895
#405-USDA Reserve Fund	\$ 0	\$ 0	\$ 0
#506-FUTA Fund	\$ 35,000	\$ 19,030	\$ 15,970
#623-LID Guaranty Fund	\$ 0	\$ 0	\$ 0
#624-Donation Fund	\$ 1,877	\$ 1,122	\$ 755
#701-Dean Vaagen Fund	\$ 1,672	\$ 500	\$ 1,172
#702-Spencer Fund	\$ 0	\$ 64	\$ (64)
#703-Vinson Fund	\$ 31,301	\$ 31,444	\$ (143)

Budgeted amounts are authorized to be transferred between departments within any fund and object classes within departments by the City Clerk and the City Treasurer; 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.

**Explanation:**

#702 - (\$ 64) – There were safekeeping fees spent that were not included in the budget.

#703 – (\$143) – There was more spent in safekeeping fees than what was originally budgeted.

**D. Cash and Investments**

See Note No. 2 - Deposits and Investments.

**E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets and inventory of the City of Colville are recorded as expenditures when purchased.

**F. Compensated Absences**

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 800 hours annually. Upon separation or retirement, employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

## **G. Long-Term Debt**

See Note 4 – Debt Service Requirements.

## **H. Risk Management**

The City of Colville is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program 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 program 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, 2016, there are 205 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive, and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program 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 \$1,718,302.

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 program 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 the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate 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 program 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/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2016, were \$1,484,482.16.

The City of Colville is self-insured, for unemployment compensation. The unemployment contribution fund was established before 1985. The State of Washington Employment Security Department administers claims and bills the City of Colville for any claims. As per Schedule 21, the City had claims totaling \$19,029.99 for the 2016 year.

## **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 of the City Council. When expenditures that meet restrictions are incurred, the City of Colville intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

- 001 - \$174 - **Current Expense** - Police Conf./Forfeiture –This was a cash confiscation/forfeiture and the funding is restricted.
- 001 - \$37,230 - **Current Expense** - Police Criminal Justice funds from the state. Use is restricted by the state and can only be spent on specific items designated by the state.
- 001 - \$18,042 – **Current Expense** – Marijuana Enforcement funds from the state. Use is restricted by the state and can only be spent on specific items designated by the state.
- 001 - \$11,113 – **Current Expense** – Reserved for Deposit – Fogle property. To be used only by Fogle’s on their commercial property.
- 101 - \$200,000 – **Street** – Hawthorne Carryover are funds for the completion only of the Hawthorne road project.
- 102 - \$5,452 - **Library** – funds can only be spent in the Library Fund per Ordinance #817/#1547.
- 108 - \$102,126 - **Parking/Business** - These funds can only be spent in the Parking/Business Fund per Ordinance #850.
- 112 - \$178,651 - **Hotel/Motel** – restricted per legislation definition. These funds can only be spent on Hotel/Motel applications approved by the City Council.
- 140 - \$48,727 - **Drug Investigation** – These are restricted per state and federal requirements.
- 401 - \$709,444 - **Water/Sewer** - Debt reserves restricted by Bond/Loan requirements. These are not spent until the bond/loan is paid in full.
- 624 - \$10,166 - **Donation Fund** - These funds only are restricted by a will.
- 701 - \$100,000 - **Dean Vaagen Memorial** – These funds are restricted per will stating principal amount cannot be spent only invested. Ord. 915 & Ord. 1126.
- 702 - \$358,900 - **Spencer Memorial Fund** – These funds are restricted per will and Ordinance #995 stating principal amount cannot be spent only invested.
- 703 - \$2,590,000 - **Vinson Fund** – These funds are restricted by a will stating principal amount cannot be spent only invested.

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

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

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

Investments are reported at original cost. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	City of Colville's own investments	Investments held by the city as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$7,506,967.64	\$ _____	\$ 7,506,967.64
U.S. Government Securities	\$ <u>2,753,653.73</u> **	\$ _____	\$ 2,753,653.73
Total	\$ <u>10,260,621.37</u>	\$ _____	\$ <u>10,260,621.37</u>

\*\*See note in Other Disclosures for the U.S. Government Securities balance for year ending 2016.

## **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 Colville. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The city's regular levy for the year 2016 was \$2.9368612 per \$1,000 on an assessed valuation of \$368,825,172 for a total regular levy of \$1,083,834.18.

## **NOTE 4 – DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Colville and summarizes the city's debt transactions for year ended December 31, 2016.

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

Year	Principal	Interest	Total
2017	898,986	150,946	1,049,931
2018	578,217	132,853	711,070
2019	581,993	127,489	709,482
2020	654,670	121,978	776,648
2021	541,084	114,040	655,124
2022-2026	2,651,470	508,453	3,159,924
2027-2031	1,126,606	402,004	1,528,610
2032-2036	521,731	305,112	826,843
2037-2041	548,895	200,105	749,000
2042-2046	517,959	79,679	597,638
2047-2051	93,830	3,902	97,732
<b>Totals</b>	<b>\$8,715,441</b>	<b>\$2,146,562</b>	<b>\$10,862,002</b>

## **NOTE 5 - PENSION PLANS**

### **A. State Sponsored Pension Plans**

Substantially all City of Colville 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 Public Employees' Retirement Systems (PERS), Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

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  
PO Box 48380  
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

The City of Colville also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board of 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).

At June 30, 2016 (the measurement date of the plans), the City of Colville's proportionate share of the collective net pension liabilities, as reported on the Schedule 09 with the exception of the VFFRPF, (which only shows on the chart below), was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.000847%	45,488
PERS 1 UAAL	0.014061%	755,142
PERS 2/3	0.018041%	908,350
LEOFF 1	0.004420%	-45,539
LEOFF 2	0.020129%	-117,076
VFFRPF-Fire	0.410000%	-70,475
VFFRPF- Police	0.0900%	-15,914

#### **LEOFF Plan 1**

The City of Colville 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 Colville 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**

- On the 2015 Schedule 09, the US Bank Cat Loader addition was originally listed at \$174,347. This was a new purchase in 2015. During the audit, the auditor in charge had me change the addition amount to \$150,815 stating I had included the interest in the total amount. After reviewing my loan documents and the amortization schedule for this item, the addition amount for 2015 should have been \$164,282.72. That is the total of all principal payment amounts for this item. I have listed the current beginning balance as \$150,815 for the 2016 year. I have paper documents to show at the time of the audit if necessary.
- On the 2015 Schedule 9, under GO – 2015-US Bank Street Sweeper, this item was destroyed in the Street Shop fire in 2015. I showed the reduction for the annual payment made in the amount of \$36,477 not realizing that the City issued a check for the entire payoff amount after receiving the funds from the insurance company. The total principal payoff amount (Reductions) should have been \$171,289.94.
- Petty Cash - the reported 2016 beginning net cash and investments as well as the ending cash and investment totals for 2016 on Schedule 1 for Current Expense #001, Library #102 and Water/Sewer #401 reflect a petty cash amount for each of the funds. The petty cash amounts are as follows: #001 Current Expense Fund - \$350.00, #102 Library Fund - \$50.00, #401 Water/Sewer Fund - \$400.00
- For purposes of the 2016 annual report, the Street Fund #101 and Debt Service Fund #201 have been rolled into the Current Expense Fund #001. The Storm Water Utility Fund #403 and the USDA/Reserve Fund #405 have been rolled into the Water/Sewer Fund #401.
- Note 2 – Deposits & Investments: I have listed the total amount paid to US Bank for the investments purchased in 2016. The US Bank statement for 12/31/16 shows a balance of \$2,752,504.00 which is shown at the principal cost.
- On the 2016 Schedule 9, I have moved the 2013-DM12-952-118 Garden Homes loan from the Assessment Debt/Liabilities column with ID #253.11 to the Revenue and Other Debt/Liabilities with ID #263.86 because this is not an LID. It is a regular state loan the City received. To recover the costs of this loan the City has created an LID for all residents on this water line. Other loans on Schedule 9 had ID #'s changed to reflect the BARS manual change effective for 2016.
- There is a substantial decrease in the LGIP investments from 2015 ending to 2016 ending. The City received insurance funds for the loss of the Street Shop in 2015 which was invested in the LGIP until the rebuild was complete in 2016.
- There is a substantial decrease in funds spent on Schedule 16 for the 2016 year due to the Hawthorne Project funds being State funds in 2016 and not Federal funds.

- **Subsequent Events** – The City received a state grant from the State of Washington Transportation Improvement Board on 01/05/2017 in the amount of 227,199 for the SR395 Railroad to Buena Vista Rd. project.
- The City was awarded a state/federal loan from DWSRF in 2016 for the Reservoir 3 Replacement for the Water/Sewer Fund in the amount of \$2,301,653.00. For the 2016 year, the City only received \$22,788.64 from DWSRF. The only payment made in 2016 was a \$131.03 Interest payment.
- **OPEB** – The City of Colville has a commitment to pay for post-employment benefits for employees that belong to LEOFF 1. These benefits include medical and dental. Two retirees received benefits during the year and \$13,759.52 was paid out for those benefits during the year.
- **Construction Commitment** – The City of Colville has active construction projects as of December 31, 2016. The projects include: Hawthorne Ave. Walnut-Crestview, Reservoir 3 and the Solar Array.

At year-end, the city's commitments with contractors are as follows:

Project	Spent to Date (2016)	Remaining Commitment (2017)
Hawthorne Ave. Walnut-Crestview - Retainage	\$1,638,699.15	\$84,714.57
Reservoir 3	\$417,563.64	\$1,117,318.08
Solar Array	\$448,882.55	\$178,096.85
	\$2,505,145.34	\$1,380,129.50

(Of the committed balance of \$1,380,129.50 the City of Colville will be required to raise \$ .00 in future financing.)



**City of Colville**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2016**

ID. No.	Description	Maturity/Payment Due Date 01/01/2016	Beginning Balance 01/01/2016	Additions	Reductions	BARS Code for Redemption (Optional)	Ending Balance 12/31/2016
<b>General Obligation</b>							
263.51	US Bank-Cat Loader-New(fire)	8/11/2020	150,815	0	8,320		142,495
263.51	US Bank-Street Sweeper-New(fire)	8/25/2019	137,376	0	32,422		104,954
263.85	2005-PWTF #4 (PW-04-691-PRE-121)	6/1/2024	414,474	0	46,053	59195	368,421
	Total General Obligations:		702,665	0	86,794		615,871
<b>Revenue Obligations</b>							
252.11	2010 Refunded Revenue	12/1/2017	545,000	0	265,000		280,000
252.11	2003 Sewer Revenue Bonds	6/27/2043	794,064	0	14,721		779,343
252.11	2007A Sewer Revenue Bond	2/6/2047	985,122	0	15,368		969,754
252.11	2007B Sewer Revenue Bond	2/6/2047	762,395	0	11,893		750,502
263.86	1997-PWTF #1 (PS5-96-791-010)	6/1/2016	252,342	0	252,342		0
263.86	1997-PWTF #2 (PW5-96-791-011)	6/1/2016	43,656	0	43,656		0
263.86	2016 Reservoir 3 Repl. (DM16-952-044)	10/1/2035	0	22,789	0		22,789
263.86	1998-Basin C-#9700018	12/31/2017	17,926	0	8,773		9,153
263.86	1998-Headworks #L9600007	9/1/2017	68,870	0	33,618		35,252
263.84	2008-SRF/VWTF #L0500001	11/1/2027	3,446,154	0	287,179		3,158,975
263.86	2009-DM09-952-035	10/1/2029	1,542,435	0	110,174		1,432,261
259.12	Compensated Absences-CE	N/A	108,870	78,317	71,076		116,111
259.12	Compensated Absences-Street	N/A	25,373	26,539	29,481		22,431
259.12	Compensated Absences-Library	N/A	6,406	4,860	4,685		6,581
259.12	Compensated Absences - Parking	N/A	0	55	32		23
259.12	Compensated Absences-W/S	N/A	42,623	57,526	59,840		40,309
259.12	Compensated Absences - Storm	N/A	0	2,047	1,505		542
263.84	2007-CERB Bowman #2005-171	1/1/2027	252,838	0	19,938		232,900
263.86	2013-DM12-952-118/Garden Homes	10/1/2038	488,170	0	66,410		421,760
264.30	Pension Liabilities	N/A	1,440,646	268,334	0		1,708,980
	Total Revenue Obligations:		10,822,890	460,467	1,295,691		9,987,668
<b>Total Liabilities:</b>							
	Total Revenue Obligations:		702,665	0	86,794		615,871
	<b>Total Liabilities:</b>		<b>11,525,555</b>	<b>460,467</b>	<b>1,382,485</b>		<b>10,603,536</b>



## 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.

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Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
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Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>