



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

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

# **Benton-Franklin Council of Governments**

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

**Published September 17, 2018**

**Report No. 1022106**





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

September 17, 2018

Board of Directors  
Benton-Franklin Council of Governments  
Richland, Washington

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

Please find attached our report on the Benton-Franklin Council of Governments financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
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.....	6
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance .....	8
Independent Auditor's Report on Financial Statements.....	11
Financial Section.....	14
About the State Auditor's Office.....	33

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### **Benton-Franklin Council of Governments January 1, 2017 through December 31, 2017**

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

The results of our audit of the Benton-Franklin Council of Governments 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 basic financial statements in accordance with accounting principles generally accepted in the United States of America (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 Council.

#### **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 Council'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>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

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

The Council qualified 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*

## **Benton-Franklin Council of Governments** **January 1, 2017 through December 31, 2017**

Board of Directors  
Benton-Franklin Council of Governments  
Richland, 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 Benton-Franklin Council of Governments, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated September 11, 2018.

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

In planning and performing our audit of the financial statements, we considered the Council'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 Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council'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 Council's financial statements are free from material misstatement, we performed tests of the Council'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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

September 11, 2018

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

## **Benton-Franklin Council of Governments January 1, 2017 through December 31, 2017**

Board of Directors  
Benton-Franklin Council of Governments  
Richland, Washington

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

We have audited the compliance of the Benton-Franklin Council of Governments, 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 Council's major federal programs for the year ended December 31, 2017. The Council'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 Council'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 Council'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 Council's compliance.

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

In our opinion, the Council 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, 2017.

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

Management of the Council 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 Council'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 Council'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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 11, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Benton-Franklin Council of Governments January 1, 2017 through December 31, 2017**

Board of Directors  
Benton-Franklin Council of Governments  
Richland, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Benton-Franklin Council of Governments, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed on page 14.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Council'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 Council'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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Benton-Franklin Council of Governments, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Council's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 September 11, 2018 on our consideration of the Council'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 Council's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 11, 2018

## **FINANCIAL SECTION**

### **Benton-Franklin Council of Governments January 1, 2017 through December 31, 2017**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

## **Management's Discussion and Analysis**

This narrative provides an overview and analysis of the financial activities for the fiscal year ended December 31, 2017.

### **Financial Highlights**

Total assets of the Benton-Franklin Council of Governments (BFCG) exceed liabilities by \$2,126,971. This is a decrease of \$28,260 from 2016. Of this amount, \$1,432,355 is designated as "restricted" requiring board approval for use.

### **Overview of the Financial Statements**

The financial statements of the BFCG are designed to provide readers with a broad overview of BFCOG's finances. The basic financial statements are comprised of two components: 1) financial statements and 2) notes to the financial statements

Because the majority of revenues are derived from grants or contracts, expenses can be directly related to resources. For this reason, BFCG operates as an "enterprise fund."

The Statement of Net Position presents information on all of BFCG's assets and liabilities with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.

The Statement of Revenues, Expenses and Changes in Fund Net Position provide an overview of operating results of each of the funds. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods or services are received, regardless of the timing of the cash flow. Items such as unpaid vendor invoices for items received in 2017, and earned but unused vacation leave are included in the statement of activities as revenue and expense even though the cash associated with these items was not received or distributed in 2017.

## Fund Highlights

	2017	2016
Capital assets	151,340	152,681
Other assets	2,496,998	2,574,444
Total Assets	2,648,338	2,727,125
Short-Term Liabilities	158,796	172,869
Long-Term Liabilities	360,469	399,025
Total Liabilities	519,265	571,894
Invested in capital assets	150,000	150,000
Restricted assets	1,432,355	1,399,282
Unrestricted assets	544,615	605,948
Net Position	2,126,971	2,155,230
Operating Revenues by source are:		
Charges for Services	52,833	30,007
Member Assessments	208,283	213,87
Interest on Loan Programs	80,975	103,476
Rental Income	28,811	28,426
Donations Received	0	50,000.00
Com. Public Health & Safety	0	0
Total Operating income	370,902	425,784
Non-operating Revenues by source are:		
WS Dept of Transportation	606,518	614,715
US Economic Development Admin.& Related programs	75,264	83,044
Interest Income	2,394	1,856
Total non-operating income	684,176	699,615
Expenses by function are:		
Transportation Program	687,597	693,275
Economic & Community Development	162,326	166,569
Loan Programs	131,432	777,941
Community Public Health & Safety	0	0
Board Support & Miscellaneous	94,825	29,795
Return to Investors		
Interest expense	4,277	4,655
Total expenses	1,080,457	1,672,235
Change in Net Position:	-28,260	-546,835
Ending Net Position;	2,126,971	2,155,230



## **Analysis of Financial Position and Results of Operations**

The overall financial position of the operating fund has decreased slightly due to increased program expenses.

## **Other Potentially Significant Matters**

No other potentially significant matters are foreseen in 2018.

## **Capital Asset and Long-Term Debt Activity**

At the end of 2017, capital assets within the BFCG consisted of one vehicle and real estate. Refer to Note 4 for additional information. The real estate has an estimated value of \$150,000. The property is leased, thus helping to recover all costs as well as rebuild the loan fund.

Columbia Regional Economic Development Trust (CREDiT), a non-profit corporation, borrowed \$1 million from the U.S. Department of Agriculture as part of its Intermediary Relending Program. The loan has a 20-year term and carries one percent interest. Only interest received from the Intermediary Relending Program may be used by CREDiT to make payments on this loan. The loan is current with a principal balance of \$399,029.24. Further information concerning CREDiT can be found in Note 11 to these financial statements.

BENTON-FRANKLIN COUNCIL OF GOVERNMENTS STATEMENT OF NET POSITION  
for the Year Ended December 31, 2017

CURRENT ASSETS:

Cash & cash Equivalents	1,282,055.68
Investments	0.00
Accounts Receivable, net	146,355.98
Loans Receivable, net	108,405.50
Interest Receivable, net	
Inventories	4,322.10
Prepaid expenses	0.00
Indirect Cost Pool	0.00
Total Current Assets	<u>1,541,139.26</u>

NONCURRENT ASSETS:

Loans Receivable, net	955,858.61
Interest Receivable, net	
Total NonCurrent Assets	<u>955,858.61</u>

CAPITAL ASSETS:

Real Estate Owned	150,000.00
Equipment, net of accumulated depreciation	1,340.32
Total Capital Assets	<u>151,340.32</u>

TOTAL ASSETS	<u>2,648,338.19</u>
--------------	---------------------

LIABILITIES

Current Liabilities

Vouchers Payable	8,024.97
Accounts Payable	40,594.58
Loans Payable	39,060.22
Accrued Vacation Payable	71,116.12
Total Current Liabilities	<u>158,795.89</u>

NonCurrent Liabilities

Loans Payable	<u>360,469.02</u>
Total NonCurrent Liabilities	<u>360,469.02</u>

TOTAL LIABILITIES	<u>519,264.91</u>
-------------------	-------------------

DEFERRED INFLOWS of RESOURCES

Deferred Inflow of Resources	<u>2,102.61</u>
------------------------------	-----------------

TOTAL DEFERRED INFLOWS OF RESOURCES	2,102.61
-------------------------------------	----------

NET POSITION

Invested in Capital Assets	150,000.00
Restricted	1,432,355.43
Unrestricted	544,615.24
TOTAL NET POSITION	<u>2,126,970.67</u>

*The accompanying notes are an integral part of these financial statements.*

BENTON-FRANKLIN COUNCIL OF GOVERNMENTS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
for the Year Ended December 31, 2017

	TOTALS
OPERATING REVENUES	
Charges for Services	52,833.09
Member Assessments	208,283.00
Interest on Loan Programs	80,974.83
Donations Received	0.00
Rental Income	28,810.92
Community Public Health & Safety Networks	0.00
Total Operating Revenue	<u>370,901.84</u>
OPERATING EXPENSES:	
Transportation Programs	687,596.81
Economic/Community Development	162,326.14
Loan Programs	131,432.25
Board Support	94,825.21
Community Public Health & Safety Networks	0.00
Miscellaneous	3,967.43
Total Operating Expenses	<u>1,080,147.84</u>
Operating Income (Loss)	<u>-709,246.00</u>
NONOPERATING REVENUES (EXPENSES)	
Transportation Grants	606,517.57
Economic/Community Dev. Grants	75,264.29
Returned to Investors	0.00
Interest Income	3,480.95
Interest expense	-4,276.54
Total NonOperating Revenue (Expenses)	<u>680,986.27</u>
Income before other revenues, expenses, gains, losses and transfers	-28,259.73
CHANGE IN NET POSITION	<u>-28,259.73</u>
TOTAL NET POSITION-BEGINNING	<u>2,155,230.40</u>
TOTAL NET POSITION-ENDING	<u>2,126,970.67</u>

*The accompanying notes are an integral part of these financial statements.*

# BENTON-FRANKLIN COUNCIL OF GOVERNMENTS STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers/members	475,180.76
Payments to suppliers	-268,477.30
Payments to employees	-781,009.81
Donations Received	0.00
Cash received [paid] on loan program	169,257.08
Cash paid to return equity	-39,986.70
Cash Paid out on loan programs	-299,993.92
Net Cash Provided (used) by operating activities	<u>-745,029.89</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Grants Received	654,374.93
Principal payments on USDA loan	-38,173.46
Interest payments on USDA loan	-4,276.54
Net cash provided (used) by noncapital financing activities	<u>611,924.93</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
None	<u>0.00</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest earned	<u>3,480.95</u>
Total Cash Flows from Investing	<u>3,480.95</u>
Balances-Beginning of the year	<u>1,411,679.69</u>
Balances-end of the year	<u>1,282,055.68</u>

## RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	-709,246.00
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Receivables, net	-23,438.11
Prepaid Assets	0.00
Net Equipment	-1,340.32
Accounts/vouchers payable	-14,701.99
Accrued vacation	2,661.80
Revenue collected in advance	-313.14
Add back depreciation *	<u>1,340.32</u>
Net cash provided (used) by operating activities	<u>-745,037.44</u>

*The accompanying notes are an integral part of these financial statements.*

## **BENTON-FRANKLIN COUNCIL OF GOVERNMENTS**

### **Notes to Financial Statements**

December 31, 2017

#### **Note 1 - Summary of Significant Accounting Policies**

The financial statements of the Council of Governments have been prepared in conformity with generally accepted accounting principles (GAAP) for an enterprise fund. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

##### **A. Reporting Entity**

The Benton-Franklin Council of Governments was established in 1966 pursuant to Chapter 36, Laws of 1959, as amended (RCW 36.70.060) and Chapter 84, Laws of 1965, Extraordinary Session (RCW 36.64.080) in the State of Washington, as the Benton-Franklin Governmental Conference. At the regularly scheduled Board meeting of May 24, 1991, the name of the Conference was officially changed to Benton-Franklin Regional Council. At the regularly scheduled Board meeting of December 19, 1997, the name was changed again to Benton-Franklin Council of Governments.

The Columbia Regional Economic Development Trust (CREDiT) is governed by the eleven-member board appointed by the Benton-Franklin Council of Governments board. Although it is legally separate from the Council of Governments, CREDiT is reported as a blended presentation as if it were part of primary government because its sole purpose is to supplement the activities of the regional revolving loan fund program within the rural areas of Benton, Franklin, Walla Walla and Columbia counties.

Separate financial statements for the COG, CREDiT and the revolving loan fund can be obtained by contacting the BFCOG office.

##### **B Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of

related cash flows. Grants and similar items are recognized as revenue when related expenses have been incurred.

As a general rule the effect of the intrafund activity has been eliminated from the financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions 3) capital grants and contributions and 4) member assessments.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of BFCOG are member assessments and charges for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Blended financial statements are presented. Separate (unblended) statements for the regional revolving loan fund (RRLF), the Columbia Regional Economic Development Trust (CREdiT) and the general fund may be obtained by contacting the Council of Governments.

## C. Assets, Liabilities, Fund Balance, and Net Position

### 1. Cash and Cash Equivalents

BFCOG deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

For purposes of the statement of cash flows, BFCOG considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Within submitted annual SAO Financial Statements, State Investment Pool funds are listed separately, to allow for ease of reconciliation against agency bank statements and reports.

### 2. Investments

See Note 1.



3. Receivables

Customer accounts receivable consist of amounts owed from customers or grantors for goods and services provided. Operating Fund accounts receivable has been adjusted for all known uncollectible amounts. No additional allowance for doubtful accounts is considered necessary. Please see Note 10 - Regional Revolving Loan Fund Program- for further information concerning the receivables and Note 11 - for Columbia Regional Economic Development Trust receivables.

4. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expense at the time individual inventory items are purchased. Inventory is stated at the lower-of-cost or market. Cost is determined by the first-in, first-out (FIFO) method.

5. Capital Assets

Capital assets, which include real property and equipment are reported in the financial statements. Capital assets are defined by BFCG as assets with an initial, individual cost of more than \$5,000 and estimated useful life of at least five years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Real property is not depreciated because it is not held for an extended length of time and is not used by operations of BFCOG. Equipment of BFCOG, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives; Vehicles 5 years

6. Compensated Absences

Vacation leave may be accumulated up to 30 days at year-end and is payable upon separation or retirement. Excess of 30 days at year-end will be bought back by a deposit to the ICMA Retirement Health Savings (RHS) Account, provided the employee has used a minimum of 112 ½ hours during the year. Accrued vacation is payable upon employee separation or retirement. These policies were approved through Board adoption of the RHS agreement.

There is no limit on the accumulation of sick leave. Upon separation or retirement employees will receive a deposit to the ICMA Retirement Health Savings Account on a sliding scale based on length of service, but not to exceed 50%.

7. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

8. Long-Term Debt-See Note 8.

9. Fund Reserves and Designations

Reservations of fund balance are legally restricted by outside parties for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Note 2 – Stewardship, Compliance and Accountability.

There have been no material violations of finance-related legal or contractual provisions.

Note 3 – Deposits and Investments

Deposits:

BFCOG's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Note 4-Capital Assets

BFCOG Resolution 05-07, Adoption of Capitalization Policy for Equipment Purchases, was adopted on December 16, 2005. The Policy changed the dollar amount of equipment that was to be capitalized to \$5,000 or more. In keeping with this policy, all equipment on the inventory that did not meet this requirement was deleted in 2005 along with associated accumulated depreciation.

During the final days of 2013, purchase of a phone system was capitalized for \$6702. This equipment is depreciated annually by \$1340, for a five year period (2014-2018).



<b>Enterprise Fund</b>	<b>Beginning Balance 1/1/2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2017</b>
Capital assets, not being depreciated:				
Land	150000	0	0	150000
Construction in progress	0	0	0	0
<b>Total capital assets not being depreciated</b>	<b>150000</b>	<b>0</b>	<b>0</b>	<b>150000</b>
Capital assets, being depreciated:				
Buildings	0	0	0	0
Improvement other than buildings	0	0	0	0
Machinery and equipment	26122	0	0	26122
Infrastructure	0	0	0	0
<b>Total capital assets being depreciated:</b>	<b>26122</b>	<b>0</b>	<b>0</b>	<b>26122</b>
Less accumulated depreciation for:				
Buildings	0	0	0	0
Improvement other than buildings	0	0	0	0
Machinery and equipment	((23441)	(1340)	0	(24781)
Infrastructure	0	0	0	0
<b>Total accumulated depreciation</b>	<b>(23441)</b>	<b>(1340)</b>	<b>0</b>	<b>(24781)</b>
Total capital assets being depreciated, net	0	()	0	0
<b>Capital Assets, Net</b>	<b>152,681</b>	<b>(1,340)</b>	<b>0</b>	<b>151,341</b>

#### Note 5 - Qualified Defined Contribution Pension Plan

The Benton-Franklin Council of Governments commenced a Qualified Defined Contribution Pension Plan (401A) on January 1, 1996. This plan is with the ICMA Retirement Corporation. Full vesting occurs after one year of service. All current employees are fully vested. The BFCG contribution rate is 9.9 percent of base salary

for all permanent staff members. Employees contribute a mandatory 3.9% as well. For 2017, the total 401A expense was \$82,482.

#### Note 6 - Deferred Compensation Plan

The Benton-Franklin Council of Governments offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the ICMA Retirement Corporation Deferred Compensation (457) Plan. The plan, available to all permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Compensation deferred under the plan and all income attributable to the plan are held in Trust by the ICMA Retirement Corporation for the sole benefit of Council of Governments employees, as provided by IRC Section 457(g).

#### Note 7 – Risk Management

As a Council of Governments, BFCG staff and Board members have risk primarily with the following areas: potential general liability risks, risks tied to auto liability, Public Officials errors and omissions, and employment practices liability risk.

To insure against these risks, the Benton-Franklin Council of Governments is a member of Enduris. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity 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. 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 July 10, 1987, when two (2) counties and two (2) 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. The Pool now services health districts, port districts, public utility districts, water districts, sewer districts, irrigation districts, reclamation districts, diking districts, drainage districts, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park & recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations, and quasi-municipal corporations.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of \$500,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a “per occurrence” \$500,000 deductible on liability loss, \$100,000 deductible on property loss, and \$5,000 deductible on boiler and machinery loss. The member is responsible for the first \$1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining \$499,000 on liability losses, \$99,000 on property loss, \$4,000 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Intergovernmental Contract is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Intergovernmental Contract.

The Pool is fully funded by its member participants. Claims are filed by members with Enduris, and are administered in house.

A Board of Directors consisting of seven (7) board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

## Note 8 – Long-Term Debt and Leases

### A. Long-Term Debt

CREDiT borrowed \$1 million, one percent interest, from the US Department of Agriculture (USDA) for the purpose of administering USDA's intermediary relending program.

Benton-Franklin Council of Governments manages a MicroLoan program within CREDiT.

The annual debt service requirements to maturity is as follows:

Year ended	principal	interest
2018	38,560	3,890
2019	38,947	3,503
2020	39,337	3,113
2021-2024	161,332	8,468
2025-2027	<u>120,418</u>	<u>2,055</u>
Totals	398,594	21,029

### B Changes in Long-Term Liabilities for the USDA debt listed above:

Beginning Balance 01/01/17	\$ 437,203
Additions	0
Reductions	<u>38,173</u>
Ending Balance 12/31/17	\$ 399,029
Due within one year	42,450

### C. Leases

#### 1. Operating Leases

BFCOG leases the office building and other equipment under operating leases. Total cost for such leases was \$69,928 for the year ended December 31, 2017. The future minimum lease payments for these leases are as follows:



Year ending	Amount	
December 31, 2018	70,070	
December 31, 2019	73,573	(Assumes 5% increase/yr)
December 31, 2020	77,252	
December 31, 2021	81,115	

2. Capital Leases  
BFCOG does not have any capital leases.

#### Note 9 - Contingencies and Litigation

BFCOG has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that BFCOG will have to make payment. In the opinion of management, BFCOG's insurance policies are adequate to pay all known or pending claims.

BFCOG participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representative. Such audits could result in requests for reimbursement to grantor agencies for expenses disallowed under the terms of the grants. BFCOG management believes that such disallowances, if any, will be immaterial.

#### Note 10 - Regional Revolving Loan Fund Program

During 1986, the Council of Governments started an economic development program in cooperation with the U. S. Department of Commerce, Economic Development Administration, City of Kennewick, City of Pasco, and the City of Richland. Since inception, 133 loans for a total of \$12,082,796 have been made. At the end of 2017, eight loans were outstanding with a principal balance of \$887,719.

Recovery efforts are made upon written off loans - During 2017, there were no recovery of previously written off loans. The total written off since program inception is \$2,063,620. At the end of 2017, eight are current.

During 1995, the Council of Governments established a "risk capital" component of the Revolving Loan Fund program utilizing U.S. Department of Energy 3161 funds through a contract with the Tri-City Industrial Development Council. Since inception, eight loans

for a total of \$1,094,013 have been made. At the end of 2017, no loans were outstanding.

#### Note 11 - Columbia Regional Economic Development Trust (CREDiT)

In 1997, the Council of Governments formed a private non-profit corporation (CREDiT) for the purpose of administering an Intermediary Relending Program funded by a loan (\$1 million) from the U.S. Department of Agriculture (USDA). The outstanding balance due USDA at December 31, 2017, was \$399,029.24. Payments are made semi-annually to USDA and all payments are current. See Note 8 for additional information on loan.

Thirty-one loans for a total of \$2,154,639 have been disbursed since inception of the Intermediary Relending Program. At the end of 2017, nine loans were outstanding with a total principal balance of \$276,835.71. One loan was in default.

#### Note 12 – Other Disclosures

##### Related Party Transactions

Benton and Franklin PUDs have made investments into the Regional Revolving Loan Fund, as have the cities of Kennewick, Pasco, and Richland with CDBG funding available for loans within their respective jurisdictions. At the end of 2017, Benton PUDs fund balance equaled \$96,634.67.

**Benton-Franklin Council of Governments  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Economic Development Administration, Department Of Commerce (via US Dept of Commerce/EDA)	Economic Development Support for Planning Organizations	11.302	07-83-07203-01	19,017	-	19,017	EDA 17, Q4
Economic Development Administration, Department Of Commerce (via US Dept of Commerce/EDA)	Economic Development Support for Planning Organizations	11.302	ED17SEA302001 8	56,247	-	56,247	EDA 18, Q1- 3
			<b>Total CFDA 11.302:</b>	<b>75,264</b>	-	<b>75,264</b>	-
<b>Economic Development Cluster</b>							
Economic Development Administration, Department Of Commerce (via US Dept of Commerce/EDA)	Economic Adjustment Assistance	11.307	07-39-02838.02	659,419	-	659,419	RRLF
			<b>Total Economic Development Cluster:</b>	<b>659,419</b>	-	<b>659,419</b>	-
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	GCB 1763	234,000	-	234,000	MPO
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	GCB 2550	121,801	-	121,801	MPO
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	STPUL-STPUS- STPR-9903(009)	35,392	-	35,392	UPWP 220
			<b>Total Highway Planning and Construction Cluster:</b>	<b>391,193</b>	-	<b>391,193</b>	-
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Metropolitan Transportation Planning and State and Non- Metropolitan Planning and Research	20.505	GCB 1763	66,733	-	66,733	FTA
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Metropolitan Transportation Planning and State and Non- Metropolitan Planning and Research	20.505	GCB 2550	37,690	-	37,690	FTA
			<b>Total CFDA 20.505:</b>	<b>104,424</b>	-	<b>104,424</b>	-
			<b>Total Federal Awards Expended:</b>	<b>1,230,299</b>	-	<b>1,230,299</b>	-

The accompanying notes are an integral part of this schedule.

## BENTON-FRANKLIN COUNCIL OF GOVERNMENTS

### **Notes to the Schedule of Expenses to Federal Awards**

December 31, 2017

#### **Note 1 - Basis of Accounting**

The Schedule of Financial Assistance is prepared on the same basis of accounting as the Benton-Franklin Council of Governments financial statements.

#### **Note 2 - Program Costs**

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the Council of Governments' portion, may be more than shown.

#### **Note 3 - Determination of Expenses for the Regional Revolving Loan Fund**

The Council of Governments has a revolving loan program for economic development. Under this federal grant, expenses are calculated as principal balance outstanding plus cash and investment balance of funds on hand plus loan related expenses paid out of RLF income during the fiscal year. Only the portion attributed to Economic Development Administration funds are reflected in the revolving loan program.

#### **Note 4 – Indirect Cost Allocation Plan**

The Council of Governments has historically developed annually an Indirect Cost Allocation Plan (ICAP), based upon the adopted agency budget for that calendar year. The ICAP were prepared to recover anticipated overhead expenses across all agency programs for the year, reflective of any overage (or shortage) from the prior year

Early in 2017, BFCG prepared ICAP, then later coordinated with Dept. of Interior (DOI) in preparing negotiated rate based on 2016 audited and actual financial statements. The DOI rate approved 4/4/2018 is for two years – covering 2017 and 2018 calendar years. The ICAP plan is prepared in accordance with 2 CFR 200.



## 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>