



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Town of Waterville

Douglas County

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

Published October 12, 2017

Report No. 1019853





Office of the Washington State Auditor
Pat McCarthy

October 12, 2017

Mayor and Town Council
Town of Waterville
Waterville, Washington

Report on Financial Statements

Please find attached our report on the Town of Waterville's financial statements.

We are issuing this report in order to provide information on the Town'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**

**Town of Waterville
Douglas County
January 1, 2016 through December 31, 2016**

Mayor and Town Council
Town of Waterville
Waterville, 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 Town of Waterville, Douglas County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated September 7, 2017.

We issued an unmodified opinion on the fair presentation of the Town'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 Town 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town'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 Town's financial statements are free from material misstatement, we performed tests of the Town'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 Town'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 Town'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 written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 7, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town of Waterville Douglas County January 1, 2016 through December 31, 2016

Mayor and Town Council
Town of Waterville
Waterville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Town of Waterville, Douglas County, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town'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 Town'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 Town'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 Town of Waterville 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 Town of Waterville, 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 Town 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 Town of Waterville, 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 accompanying 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 September 7, 2017 on our consideration of the Town'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 Town's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 7, 2017

FINANCIAL SECTION

**Town of Waterville
Douglas 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

Town of Waterville
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

| | | Total for All Funds (Memo Only) | 001 Current Expense | 101 City Streets | 103 Park / Pool |
|-----------------------------------------------------|-------------------------------------|------------------------------------------------|--------------------------------|-------------------------|------------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Reserved | 428,746 | 1,400 | - | - |
| 30880 | Unreserved | 1,914,620 | 626,020 | 185,233 | 96,209 |
| 388 / 588 | Prior Period Adjustments, Net | - | - | - | - |
| Revenues | | | | | |
| 310 | Taxes | 409,820 | 213,776 | 69,749 | 93,628 |
| 320 | Licenses and Permits | 20,602 | 20,602 | - | - |
| 330 | Intergovernmental Revenues | 121,895 | 41,590 | 34,973 | 8,744 |
| 340 | Charges for Goods and Services | 849,980 | 14,631 | - | 13,378 |
| 350 | Fines and Penalties | - | - | - | - |
| 360 | Miscellaneous Revenues | 25,378 | 20,858 | - | 4,341 |
| Total Revenues: | | 1,427,675 | 311,457 | 104,721 | 120,091 |
| Expenditures | | | | | |
| 510 | General Government | 102,356 | 102,356 | - | - |
| 520 | Public Safety | 131,860 | 131,860 | - | - |
| 530 | Utilities | 486,750 | 9,540 | - | - |
| 540 | Transportation | 96,529 | - | 96,529 | - |
| 550 | Natural and Economic Environment | 19,461 | 19,461 | - | - |
| 560 | Social Services | - | - | - | - |
| 570 | Culture and Recreation | 128,984 | 6,667 | - | 122,316 |
| Total Expenditures: | | 965,940 | 269,884 | 96,529 | 122,316 |
| Excess (Deficiency) Revenues over Expenditures: | | 461,735 | 41,573 | 8,192 | (2,225) |
| Other Increases in Fund Resources | | | | | |
| 391-393, 596 | Debt Proceeds | - | - | - | - |
| 397 | Transfers-In | - | - | - | - |
| 385 | Special or Extraordinary Items | - | - | - | - |
| 386 / 389 | Custodial Activities | 12,117 | 63 | - | - |
| 381, 395, 398 | Other Resources | 7,134 | - | 7,134 | - |
| Total Other Increases in Fund Resources: | | 19,251 | 63 | 7,134 | - |
| Other Decreases in Fund Resources | | | | | |
| 594-595 | Capital Expenditures | 178,889 | 14,382 | 70,429 | 7,956 |
| 591-593, 599 | Debt Service | 104,187 | - | - | - |
| 597 | Transfers-Out | - | - | - | - |
| 585 | Special or Extraordinary Items | - | - | - | - |
| 586 / 589 | Custodial Activities | 17,009 | 1,945 | - | - |
| 581 | Other Uses | - | - | - | - |
| Total Other Decreases in Fund Resources: | | 300,085 | 16,326 | 70,429 | 7,956 |
| Increase (Decrease) in Cash and Investments: | | 180,901 | 25,310 | (55,103) | (10,181) |
| Ending Cash and Investments | | | | | |
| 5081000 | Reserved | 468,609 | - | - | - |
| 5088000 | Unreserved | 2,055,659 | 652,730 | 130,131 | 86,027 |
| Total Ending Cash and Investments | | 2,524,267 | 652,730 | 130,131 | 86,027 |

The accompanying notes are an integral part of this statement.

Town of Waterville
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

| | | 305 Capital Improvement Reserve | 411 Water / Sewer | 413 Garbage |
|-----------------------------------------------------|-------------------------------------|------------------------------------------------|------------------------------|--------------------|
| Beginning Cash and Investments | | | | |
| 30810 | Reserved | 326,672 | 100,674 | - |
| 30880 | Unreserved | - | 871,135 | 136,022 |
| 388 / 588 | Prior Period Adjustments, Net | - | - | - |
| Revenues | | | | |
| 310 | Taxes | 32,667 | - | - |
| 320 | Licenses and Permits | - | - | - |
| 330 | Intergovernmental Revenues | - | 20,700 | 15,888 |
| 340 | Charges for Goods and Services | - | 640,399 | 181,572 |
| 350 | Fines and Penalties | - | - | - |
| 360 | Miscellaneous Revenues | 179 | - | - |
| Total Revenues: | | 32,846 | 661,099 | 197,461 |
| Expenditures | | | | |
| 510 | General Government | - | - | - |
| 520 | Public Safety | - | - | - |
| 530 | Utilities | - | 285,241 | 191,969 |
| 540 | Transportation | - | - | - |
| 550 | Natural and Economic Environment | - | - | - |
| 560 | Social Services | - | - | - |
| 570 | Culture and Recreation | - | - | - |
| Total Expenditures: | | - | 285,241 | 191,969 |
| Excess (Deficiency) Revenues over Expenditures: | | 32,846 | 375,858 | 5,491 |
| Other Increases in Fund Resources | | | | |
| 391-393, 596 | Debt Proceeds | - | - | - |
| 397 | Transfers-In | - | - | - |
| 385 | Special or Extraordinary Items | - | - | - |
| 386 / 389 | Custodial Activities | - | - | 12,054 |
| 381, 395, 398 | Other Resources | - | - | - |
| Total Other Increases in Fund Resources: | | - | - | 12,054 |
| Other Decreases in Fund Resources | | | | |
| 594-595 | Capital Expenditures | - | 69,211 | 16,912 |
| 591-593, 599 | Debt Service | - | 104,187 | - |
| 597 | Transfers-Out | - | - | - |
| 585 | Special or Extraordinary Items | - | - | - |
| 586 / 589 | Custodial Activities | - | - | 15,064 |
| 581 | Other Uses | - | - | - |
| Total Other Decreases in Fund Resources: | | - | 173,398 | 31,977 |
| Increase (Decrease) in Cash and Investments: | | 32,846 | 202,460 | (14,432) |
| Ending Cash and Investments | | | | |
| 5081000 | Reserved | 359,519 | 109,090 | - |
| 5088000 | Unreserved | - | 1,065,180 | 121,590 |
| Total Ending Cash and Investments | | 359,519 | 1,174,270 | 121,590 |

The accompanying notes are an integral part of this statement.

Town of Waterville
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

| | | Total for All Funds (Memo Only) | 633 Mosquito Abatement | 634 Utility Deposits |
|-----------|--------------------------------------------------|------------------------------------------------|-----------------------------------|---------------------------------|
| 308 | Beginning Cash and Investments | 14,553 | 13,353 | 1,200 |
| 388 & 588 | Prior Period Adjustments, Net | - | - | - |
| 310-360 | Revenues | - | - | - |
| 380-390 | Other Increases and Financing Sources | 4,782 | 714 | 4,068 |
| 510-570 | Expenditures | - | - | - |
| 580-590 | Other Decreases and Financing Uses | 2,247 | 2,247 | - |
| | Net Increase (Decrease) in Cash and Investments: | 2,535 | (1,533) | 4,068 |
| 508 | Ending Cash and Investments | 17,087 | 11,820 | 5,268 |

The accompanying notes are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS
TOWN OF WATERVILLE
FOR THE YEAR ENDING DECEMBER 31, 2016
MCAG NO. 0282**

Note 1 - Summary of Significant Accounting Policies

The Town of Waterville was incorporated in 1889 and operates under the laws of the state of Washington applicable to a mayor-council form of government. The Town of Waterville is a general purpose local government and provides public safety, parks, recreation health and social services, general administrative services, and operates a water-sewer system.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the Town of Waterville also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The Town of Waterville adopts annual appropriated budgets for 15 funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

| Fund/Department | Final Appropriated Amounts | Actual Expenses | Variance |
|-------------------------------------|---------------------------------------|----------------------------|---------------------|
| 001 - Current Expense | | | |
| Current Expense | 386,345.00 | 286,210.59 | 100,134.41 |
| Mosquito Abatement Operations | 4,800.00 | | 4,800.00 |
| City Wide Cumulative Reserve | 225,000.00 | | 225,000.00 |
| Total 001 - Current Expense | 616,145.00 | 286,210.59 | 329,934.41 |
| 101 - City Streets | 243,100.00 | 166,957.63 | 76,142.37 |
| 103 - Park / Pool | 188,397.00 | 130,272.24 | 58,124.76 |
| 305 - Capital Improvement Reserve | 120,124.00 | | 120,124.00 |
| 411 - Water / Sewer | | | |
| Public Works Trust Loan Redemption | | | |
| Water / Sewer Revenue Bond 1993 | 42,048.00 | 42,048.00 | |
| Water / Sewer Rev Bond Reserve 1993 | | | |
| 2009 RD Water Debt Redemption | 32,300.00 | 32,300.00 | |
| 2009 USDA RD Water Debt Reserve | | | |
| Water / Sewer | 819,039.08 | 384,290.60 | 434,748.62 |
| Water / Sewer Cumulative Reserve | 156,000.00 | | 156,000.00 |
| Total 411 - Water / Sewer | 1,049,387.08 | 458,638.46 | 590,748.62 |
| 413 - Garbage | 241,900.00 | 223,945.98 | 17,954.02 |
| 633 - Mosquito Abatement | 7,000.00 | 2,247.41 | 4,752.59 |
| 634 - Utility Deposits | 200.00 | | 200.00 |
| 999 - ASP Clearing | | | |
| 2016 BUDGET TOTALS | 2,466,253.08 | 1,268,272.31 | 1,197,980.77 |

Budgeted amounts are authorized to be transferred between those line items within an individual fund; 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 Town of Waterville's legislative body.

The 2016 BUDGET GRAND TOTALS for Final Budget Amounts stated in the table above does not equal the total budget stated in Ordinance 2016-778 due to the roll up of funds.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 40 working days and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. 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. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of transfers-in, transfers-out, agency disbursements, and disbursements of moneys out of a clearing fund.

I. Risk Management

The Town of Waterville is a member of 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.

J. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments for the Town of Waterville for 2016 consist of 6 funds as listed below:

| | |
|----------------------------------------|--------------|
| <u>305 Capital Improvement Reserve</u> | \$359,518.72 |
|----------------------------------------|--------------|

Established to fund capital projects as outlined in the Town of Waterville Capital Improvement Plan with Real Estate Excise Taxes (REET 1 and 2) and special tax distributions receipted from the County. Since RCW 82-46-010(2) outlines how these taxes may be expended, and RCW 35.43.040 lists eligible projects, this fund is restricted as to purpose and therefore reserved.

406 1993 Water/Sewer Revenue Bond Reserve \$ 42,048.00

Established as a condition of Loan Resolution 92-06 with Farmers Home Administration for the purpose of holding one annual loan payment of \$42,048.00 in reserve.

407 2009 RD Water Debt Redemption \$ 8,172.89

Established as a condition of Loan Resolution 2007-13 with the United States Department of Agriculture for the purpose of annual debt payments of \$32,300.00 for water system improvements.

408 2009 USDA RD Water Debt Reserve \$ 58,869.00

Established as a condition of Loan Resolution 2007 - 13 with the United States Department of Agriculture for the purpose of holding one annual loan payment of \$32,300.00 in reserve.

633 Mosquito Abatement \$ 11,819.89

Established by Resolution 2014 – 10 to receive and account for tax levy distributions from Douglas County in trust for the Waterville Mosquito Control District.

634 Utility Deposits \$ 5,267.50

Established by Resolution 2014 – 11 to receive and account for utility deposits required by all new customer accounts.

Note 2 - 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 Town of Waterville. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town of Waterville's regular levy for the year 2016 was \$2.880647 per \$1,000 on an assessed valuation of \$63,385,659 for a total regular levy of \$186,578.

Note 3 – Deposits and Investments

Deposits and Investments

It is the Town of Waterville'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 Federal Deposit Insurance Corporation. All investments are insured, registered, or held by the Town of Waterville or its agent in the government's name.

Investments are reported at actual value. Investments by type at December 31, 2016 are as follows:

| | |
|-------------------------------------------------------|--------------|
| Certificate of Deposit – Sterling Savings Bank | \$200,602.51 |
| Certificate of Deposit – North Cascades National Bank | \$178,843.12 |

Note 4– Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Town of Waterville and summarizes the Town of Waterville’s debt transactions for year ended December 31, 2016.

The debt service requirements for revenue bonds including both principle and interest, are as follows:

| YEAR | 2016 REVENUE BONDS PRINCIPAL | 2016 REVENUE BONDS INTEREST | 2016 TOTAL DEBT |
|---------------|-------------------------------------------------|------------------------------------------------|--------------------------------|
| 2017 | \$50,952 | \$52,746 | \$103,698 |
| 2018 | \$52,239 | \$50,970 | \$103,209 |
| 2019 | \$53,612 | \$49,108 | \$102,720 |
| 2020 | \$55,053 | \$47,177 | \$102,230 |
| 2021 | \$56,566 | \$45,175 | \$101,741 |
| 2022 - 2026 | \$308,301 | \$193,068 | \$501,369 |
| 2027 - 2031 | \$236,914 | \$134,826 | \$371,740 |
| 2032 - 2036 | \$153,461 | \$92,135 | \$245,596 |
| 2037 - 2041 | \$102,434 | \$59,066 | \$161,500 |
| 2042 - 2046 | \$126,132 | \$35,368 | \$161,500 |
| 2047 - 2049 | \$88,231 | \$8,669 | \$96,900 |
| TOTALS | \$1,283,895 | \$768,308 | \$2,052,203 |

Due to the calculations listed in the amortization schedules used by the Town of Waterville compared to actual breakdown of principal and interest loan payments stated in the USDA Rural Development Annual Statement(s) of Loan Account(s), IRS Form 1098, these numbers may be adjusted each year. This table also reflects adjustments to the principal and interest payments for the 2006 Public Works Trust Fund due to an updated amortization schedule issued by the Department of Commerce.

Note 5 - Pension Plans

State Sponsored Pension Plans

Substantially all Town of Waterville’s 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.

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

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

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

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

At June 30, 2016, the Town of Waterville's proportionate share of the collective net pension liabilities as reported on the Schedule of Liabilities was as follows:

| Plan | Allocation % | Liability (Expressed in 1,000's) | Net Pension Liability |
|-------------|--------------|----------------------------------|-----------------------|
| PERS 1 UUAL | 0.001754 | \$ 5,370,471 | \$ 94,198 |
| PERS 2/3 | 0.002238 | \$ 5,034,921 | \$112,682 |
| LEOFF 1 | 0.000679 | (\$ 1,030,286) | (\$ 6,996) |

The Town of Waterville 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.

Note 6 - Other Disclosures

Per Ordinance 2016 – 772, water tier rates were increased 10.0% with the new rates effective 1/20/2017.

Per Ordinance 2016 – 773, sewer base rates were increased 10.0%, with the new rates effective 1/20/2017.

Per Ordinance 2016 – 774, solid waste rates were increased 0.5% in compliance with the terms of the Town of Waterville Comprehensive Solid Waste and Recycling Collection and Disposal Agreement between the Town of Waterville and Consolidated Disposal, Inc. The new rates were effective January 1, 2017.

Ordinance 2016 – 778 amended the 2016 Final budget with increases in the 103 Park/Pool Fund of \$3,385.00, the 305 Capital Improvement Reserve Fund of \$22,000, the 411 Water/Sewer Fund of \$23,000, and the 413 Garbage Fund of \$13,000. The 103 Park/Pool Fund was increased due to donations of \$2,885.00 from the Skatepark Committee and \$500.00 from Bainbridge Manufacturing, Inc., both of which were earmarked for the purchase of new skatepark equipment. The 305 Capital Improvement Reserve Fund was increased due to the receipt of \$22,000.00 in REET taxes over the budgeted amount for those line items. The 411 Water/Sewer Fund increased \$23,000.00 due a pass-through federal grant from the

Environmental Protection Agency as administered by the Washington State Department of Health for a Small Water System Management Plan. The 413 Garbage Fund increased to accommodate the increase incurred in garbage collection services.

A grant for \$15,888.25 was received from Countywide Solid Waste to reimburse the Town of Waterville for the purchase of a new paper baler for the Recycle Center. Because it was received late in December 2016, it was not included in Ordinance 2016 – 778, which amended the 2016 Final Budget.

Cost allocations for the 2016 Town payroll were distributed as outlined in Resolution 2013 – 04.

The Town of Waterville employees received a 1.0% salary increase effective January 1, 2017.

Note 7 - Related Party Disclosure

In 2012, the Town of Waterville entered into an interlocal agreement with Douglas County whereby the Town would act as the lead agency for the Waterville Mosquito Control District, a junior taxing authority. In 2012, the Waterville Mosquito Control District entered into an interlocal agreement with the Town of Waterville whereby all tax assessments distributed by the County would be receipted into the Town of Waterville 633 Mosquito Abatement Fund and the Town would be responsible to handle all mosquito control operations and any payables. Tax assessments are distributed the first week of each month from the County. In 2016 the Town of Waterville received \$714.40 in tax assessments from Douglas County for the Waterville Mosquito Control District, and the Town expended \$2,247.41 in District related payables which included mosquito fogging operations, fogger calibration training, and publications. The five board trustees for the Waterville Mosquito Control District receive no compensation, and act as volunteers. The by-laws of the Waterville Mosquito Control District state the Clerk/Treasurer of the District shall be the Town of Waterville Clerk/Treasurer. The Clerk/Treasurer receives no compensation from the District. Tax assessments from the County for December 2016 of \$85.48 were not distributed until January 2017. No payables are due from the District as of December 31, 2016.

**Town of Waterville
Schedule of Liabilities
For the Year Ended December 31, 2016**

| ID. No. | Description | Due Date | Beginning Balance | Additions | Reductions | Ending Balance |
|-------------------------------------------------------------|------------------------------------------------------------|-----------------|--------------------------|------------------|-------------------|-----------------------|
| Revenue and Other (non G.O.) Debt/Liabilities | | | | | | |
| 252.11 | 1993 Water/Sewer Revenue Bond Issued 12/13/1993 | 12/15/2033 | 489,290 | - | 17,377 | 471,913 |
| 252.11 | Public Works Trust PW-06-962-PRE-111 Issued 1/01/2007 | 6/30/2026 | 269,042 | - | 24,457 | 244,585 |
| 252.11 | 2009 USDA Rural Development Revenue Bond Issued 10/19/2009 | 10/19/2049 | 575,249 | - | 7,852 | 567,397 |
| 259.12 | Compensated Absences | | 21,127 | 3,038 | - | 24,165 |
| 264.30 | Pension Liabilities | | 187,371 | 19,509 | - | 206,880 |
| Total Revenue and Other (non G.O.) Debt/Liabilities: | | | 1,542,079 | 22,547 | 49,686 | 1,514,940 |
| Total Liabilities: | | | 1,542,079 | 22,547 | 49,686 | 1,514,940 |

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 | PublicRecords@sao.wa.gov |
| Main telephone | (360) 902-0370 |
| Toll-free Citizen Hotline | (866) 902-3900 |
| Website | www.sao.wa.gov |