



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Wapato

Yakima County

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

Published April 2, 2018

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Office of the Washington State Auditor
Pat McCarthy

April 2, 2018

Mayor and City Council
City of Wapato
Wapato, Washington

Report on Financial Statements

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

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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

**City of Wapato
Yakima County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Wapato
Wapato, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Wapato, Yakima County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated March 26, 2018.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

March 26, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Wapato Yakima County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Wapato
Wapato, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Wapato, for the year ended December 31, 2016, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

March 26, 2018

FINANCIAL SECTION

**City of Wapato
Yakima County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

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

		Total for All Funds (Memo Only)	001 Current Expense Fund	101 Street Fund	170 CDBG Rehabilitation Fund
Beginning Cash and Investments					
30810	Reserved	623,916	41,614	119,258	79,767
30880	Unreserved	5,237,242	2,502,926	(15,876)	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	2,163,239	1,981,795	161,753	-
320	Licenses and Permits	53,910	52,460	-	-
330	Intergovernmental Revenues	1,412,861	213,827	908,219	-
340	Charges for Goods and Services	3,479,396	400,796	100	-
350	Fines and Penalties	61,450	61,450	-	-
360	Miscellaneous Revenues	966,065	65,180	1,944	452
Total Revenues:		8,136,921	2,775,508	1,072,016	452
Expenditures					
510	General Government	938,288	809,381	2,574	-
520	Public Safety	2,342,973	2,342,973	-	-
530	Utilities	3,029,323	-	-	-
540	Transportation	645,819	-	242,131	-
550	Natural and Economic Environment	77,582	56,016	-	7,630
560	Social Services	1,002	1,002	-	-
570	Culture and Recreation	144,923	144,923	-	-
Total Expenditures:		7,179,910	3,354,294	244,706	7,630
Excess (Deficiency) Revenues over Expenditures:		957,011	(578,787)	827,311	(7,178)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	321,593	-	309,200	-
397	Transfers-In	125,000	-	125,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	396,053	70,683	284,617	16,611
381, 395, 398	Other Resources	62,110	55,000	-	-
Total Other Increases in Fund Resources:		904,756	125,683	718,817	16,611
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,958,759	21,768	1,111,838	-
591-593, 599	Debt Service	347,037	44,716	-	-
597	Transfers-Out	125,000	-	125,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	78,705	70,665	30	-
581	Other Uses	55,000	-	-	-
Total Other Decreases in Fund Resources:		2,564,501	137,149	1,236,868	-
Increase (Decrease) in Cash and Investments:		(702,734)	(590,253)	309,260	9,433
Ending Cash and Investments					
5081000	Reserved	967,051	36,017	428,137	89,201
5088000	Unreserved	4,191,374	1,918,272	(15,497)	-
Total Ending Cash and Investments		5,158,425	1,954,288	412,641	89,201

The accompanying notes are an integral part of this statement.

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

		225 Debt Service/Wapato Ave LID	230 SEID Loan- Valicoff Fruit	309 Capital Improvement Fund	401 Water Fund
Beginning Cash and Investments					
30810	Reserved	37,520	15,900	18,126	-
30880	Unreserved	-	-	-	1,474,420
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	19,691	-
320	Licenses and Permits	-	-	-	1,200
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	975,075
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	199	7,189	158	7,497
Total Revenues:		199	7,189	19,849	983,772
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	989,504
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	3,936
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	993,440
Excess (Deficiency) Revenues over Expenditures:		199	7,189	19,849	(9,668)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	12,393	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	4,800
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	12,393	-	4,800
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	1,101	218,600
591-593, 599	Debt Service	-	24,829	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	5,007
581	Other Uses	-	-	-	55,000
Total Other Decreases in Fund Resources:		-	24,829	1,101	278,607
Increase (Decrease) in Cash and Investments:		199	(5,247)	18,748	(283,475)
Ending Cash and Investments					
5081000	Reserved	37,719	10,652	36,875	-
5088000	Unreserved	-	-	-	1,190,944
Total Ending Cash and Investments		37,719	10,652	36,875	1,190,944

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

		402 Sewer Fund	403 Garbage Fund	404 Cemetery Fund	501 Equipment Rental & Revolving
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	465,093	232,457	19,526	437,989
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	250	-	-	-
330	Intergovernmental Revenues	290,814	-	-	-
340	Charges for Goods and Services	1,290,482	694,264	118,679	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,466	2,159	159	353,909
Total Revenues:		1,583,013	696,423	118,838	353,909
Expenditures					
510	General Government	7,236	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	1,312,261	610,237	117,321	-
540	Transportation	-	-	-	123,416
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		1,319,497	610,237	117,321	123,416
Excess (Deficiency) Revenues over Expenditures:		263,515	86,186	1,517	230,493
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	2,622	-
381, 395, 398	Other Resources	-	-	-	7,110
Total Other Increases in Fund Resources:		-	-	2,622	7,110
Other Decreases in Fund Resources					
594-595	Capital Expenditures	380,115	-	535	202,441
591-593, 599	Debt Service	277,492	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	170	-	2,543	144
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		657,776	-	3,078	202,584
Increase (Decrease) in Cash and Investments:		(394,261)	86,186	1,061	35,019
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	70,833	318,642	20,587	473,009
Total Ending Cash and Investments		70,833	318,642	20,587	473,009

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

		502 Public Works Service Center	503 Information Technology Rental &	701 Cemetery Perpetual Endowment
Beginning Cash and Investments				
30810	Reserved	-	-	311,730
30880	Unreserved	56,069	(5,982)	70,620
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	363,584	160,088	2,081
Total Revenues:		363,584	160,088	2,081
Expenditures				
510	General Government	-	119,097	-
520	Public Safety	-	-	-
530	Utilities	-	-	-
540	Transportation	280,272	-	-
550	Natural and Economic Environment	10,000	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		290,272	119,097	-
Excess (Deficiency) Revenues over Expenditures:		73,312	40,991	2,081
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	16,720
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	16,720
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	22,361	-
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	147	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		147	22,361	-
Increase (Decrease) in Cash and Investments:		73,165	18,630	18,801
Ending Cash and Investments				
5081000	Reserved	-	-	328,450
5088000	Unreserved	129,234	12,649	72,701
Total Ending Cash and Investments		129,234	12,649	401,151

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

		Total for All Funds (Memo Only)	632 Inmate Trust	633 Court Bond Trust	635 WTBD- Street Managerial Fund
308	Beginning Cash and Investments	152,769	(961)	2,925	150,805
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	(20)	-	-	(20)
380-390	Other Increases and Financing Sources	177,577	35,089	142,488	-
510-570	Expenditures	-	-	-	-
580-590	Other Decreases and Financing Uses	325,512	31,671	143,055	150,785
	Net Increase (Decrease) in Cash and Investments:	(147,955)	3,418	(567)	(150,805)
508	Ending Cash and Investments	4,814	2,457	2,358	-

The accompanying notes are an integral part of this statement.

City of Wapato
Notes to the Financial Statements
For the year ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

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

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to

expenditures for specified purposes of the government.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

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

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law the City also recognizes expenditures paid during twenty days

after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City adopts annual appropriated budgets for general, special revenue, capital project, and enterprises funds. These budgets are appropriated at the fund level except the general (current expense) fund, where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated	Actual Expenditures	Balance
Current Expense Fund			
Administration	\$888,720.00	\$844,467.57	\$44,252.43
Law Enforcement	\$2,105,138.00	\$1,949,786.49	\$155,351.51
Fire Department	\$333,755.00	\$295,573.40	\$38,181.60
Recreation	\$29,800.00	\$27,238.84	\$2,561.16
Public Works	\$169,325.00	\$154,759.97	\$14,565.03
Non-Expenditures		\$70,215.26	(\$70,215.26)
Jail Profit Managerial Fund	\$15,000.00	\$1,283.75	\$13,716.25
3/10'S of 1% Yakima CO Tax CE Managerial Fund	\$144,200.00	\$143,158.77	\$1,041.23
Community Outreach Managerial Fund	\$4,730.00	\$4,953.32	(\$223.32)
Street Fund	\$240,830.00	\$242,329.75	(\$1,499.75)
Street Construction Managerial Fund	\$2,515,450.00	\$1,239,243.77	\$1,276,206.23
CDBG Rehabilitation Fund	\$13,800.00	\$7,630.00	\$6,170.00
Debt Service/Wapato Ave LID	\$3,500.00	\$0.00	\$3,500.00
SEID Loan-Valicoff Fruit	\$25,200.00	\$24,829.22	\$370.78
Capital Improvement Fund	\$1,200.00	\$1,101.07	\$98.93
Water Fund	\$1,139,055.00	\$1,003,602.59	\$135,452.41
Sewer Fund	\$1,586,700.00	\$1,589,922.35	(\$3,222.35)
Garbage Fund	\$621,315.00	\$610,237.15	\$11,077.85
Cemetery Fund	\$120,195.00	\$120,399.13	(\$204.13)
Water Construction Managerial Fund	\$225,000.00	\$268,444.43	(\$43,444.43)
Sewer Construction Managerial Fund	\$754,000.00	\$387,350.61	\$366,649.39
Equipment Rental & Revolving	\$505,150.00	\$325,999.83	\$179,150.17
Public Works Service Center	\$376,080.00	\$290,418.97	\$85,661.03
Information Technology Rental & Revolving	\$154,000.00	\$141,458.14	\$12,541.86
	\$11,972,143.00	\$9,744,404.38	\$2,227,738.62

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

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

G. Long-Term Debt

See Note 5, *Debt Service Requirements*.

H. Risk Management

The City of Wapato is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2016, 98 municipalities/entities participate in the AWC RMSA pool.

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

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

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

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

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

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

39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

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

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

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

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

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

Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

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

I. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

Fund	Title	Amount
002	Jail Commissary	\$44.75
003	3/10's of 1% Yakima County Sales Tax	\$35,971.86
101	Streets	\$92,767.87
102	Street Construction	\$319,872.81
170	Rehab Loans	\$89,200.73
225	LID	\$37,718.87
230	SIED Loan	\$10,652.37
309	Capital Projects	\$36,874.87
701	Cemetery Perpetual	\$328,450.32

Note 2 – Deposits and Investments

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

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

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

Type of Investment	City of Wapato	Total
LGIP	\$3,575,015.38	\$3,575,015.38
<u>US Government Securities</u>	<u>\$998,603.00</u>	<u>\$998,603.00</u>
TOTAL	\$4,573,618.38	\$4,573,618.38

Note 3 - Property Tax

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

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

The City regular levy for the year 2016 was \$3.11518437 per \$1,000 on an assessed valuation of \$158,385,184 for a total regular levy of \$493,399.05.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2016:

Borrowing Fund	Lending Fund	Balance 1/1/2016	New Loans	Repayments	Balance 12/31/2016
001	410	<u>\$0.00</u>	<u>\$55,000.00</u>	<u>\$0.00</u>	<u>\$55,000.00</u>
	TOTALS	\$0.00	\$55,000.00	\$0.00	\$55,000.00

Resolution 2016-18

Note 5 – Debt Service Requirements

Debt Service

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

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

	Principal	Interest	Total
2016	\$173,538.65	\$167,359.76	\$340,898.41
2017	\$171,969.25	\$168,929.15	\$340,898.40
2018	\$176,370.77	\$164,527.67	\$340,898.44
2019	\$180,906.34	\$159,992.07	\$340,898.41
2020	\$185,188.16	\$155,710.25	\$340,898.41

2021-2025	\$963,287.43	\$702,627.44	\$1,665,914.87
2026-2030	\$913,379.32	\$598,226.92	\$1,511,606.24
2031-2035	\$882,280.26	\$505,179.74	\$1,387,460.00
2036-2040	\$974,413.26	\$413,046.74	\$1,387,460.00
2041-2045	\$1,076,674.49	\$310,785.51	\$1,387,460.00
2046-2050	\$1,189,367.21	\$198,092.79	\$1,387,460.00
2051-2055	\$1,313,856.51	\$73,603.49	\$1,387,460.00
2056-2060	<u>\$2,600.22</u>	<u>\$25.93</u>	<u>\$2,626.15</u>
	<u>\$8,203,831.87</u>	<u>\$3,618,107.46</u>	<u>\$11,821,939.33</u>

Note 6 – Pension Plans

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

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

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

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

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

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

At June 30, 2016 (the measurement date of the plans), the City proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

2016	Allocation	Liability (Asset)
PERS 1	0.010411%	\$559,120
PERS 2 and 3	0.010720%	\$539,744
Public Safety ERS 2	0.075488%	\$32,081
LEOFF I	0.006731%	-\$69,349
LEOFF II	0.022963%	-\$133,560

LEOFF Plan 1

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

LEOFF Plan 2

The City of Wapato also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 7 - Other Disclosures

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

- Community Outreach (\$223.32)
- Street Fund (\$1,499.75)
- Sewer Fund (\$3,222.35)
- Cemetery Fund (\$204.13)
- Water Construction Fund (\$43,444.43)

The Water Construction Fund was off because the Interfund Loan approved with Resolution 2016-18 for \$55,000 was not budgeted for.

Reporting Funds and Management Funds: The following management funds were combined with their reporting fund for the 2015 Annual Report.

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

OPEB: The City of Wapato has a commitment to pay for post-employment benefits for employees that belong to LEOFF I. These benefits include medical, vision, long-term care, and any other health care required by law. Three retirees received benefits during the year. The costs for those benefits were \$27,233.29.

Component Units-Wapato Transportation Benefit District (WTBD): The Board decided in November, 2015 that the City should absorb the transportation benefit district. This was done in early 2016. There were no transportation projects in 2015. The Board approved \$125,000 worth of projects for 2016, which were funded.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.85	SIED Loan-Yakima County	6/30/2030	-	309,200	22,904	286,296
263.96	LOCAL Bonds-Fire Truck	6/1/2024	279,632	-	25,226	254,406
Total General Obligation Debt/Liabilities:			279,632	309,200	48,130	540,702
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absenses-Cemetery	12/31/2016	1,400	253	-	1,653
259.12	Compensated Absenses-Water	12/31/2016	17,874	7,457	-	25,331
259.12	Compensated Absenses-Sewer	12/31/2016	20,367	8,519	-	28,886
259.12	Compensating Absenses-Garbage	12/31/2016	722	89	-	811
259.12	Compensating Absenses-PWSC	12/31/2016	2,797	2,792	-	5,589
263.82	USDA-RD WWTP Update Loan	12/31/2057	7,615,000	-	125,829	7,489,171
264.30	Net Pension Liability		1,022,062	108,932	-	1,130,994
Total Revenue and Other (non G.O.) Debt/Liabilities:			8,680,222	128,042	125,829	8,682,435
Total Liabilities:			8,959,854	437,242	173,959	9,223,137

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