



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Ephrata

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

Published January 14, 2019

Report No. 1023042





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

January 14, 2019

Mayor and City Council
City of Ephrata
Ephrata, Washington

Report on Financial Statements

Please find attached our report on the City of Ephrata'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 Ephrata
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Ephrata
Ephrata, 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 Ephrata, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 31, 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 opinions 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

December 31, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Ephrata January 1, 2017 through December 31, 2017

Mayor and City Council
City of Ephrata
Ephrata, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Ephrata, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

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 Ephrata 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 Ephrata, for the year ended December 31, 2017, 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 Ephrata, as of December 31, 2017, 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 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.

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

December 31, 2018

FINANCIAL SECTION

City of Ephrata January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to the Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

City of Ephrata
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General Fund	112 Street Fund	113 Sidewalk Construction Fund
Beginning Cash and Investments					
30810	Reserved	1,115,958	188,939	164,664	5,330
30880	Unreserved	6,573,001	633,195	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	4,974,057	4,382,251	220,766	-
320	Licenses and Permits	154,194	154,194	-	-
330	Intergovernmental Revenues	965,855	299,860	665,995	-
340	Charges for Goods and Services	6,781,260	289,957	1,515	-
350	Fines and Penalties	6,092	6,092	-	-
360	Miscellaneous Revenues	148,555	86,198	1,705	-
Total Revenues:		13,030,013	5,218,551	889,981	-
Expenditures					
510	General Government	362,695	352,237	-	-
520	Public Safety	3,296,822	3,296,822	-	-
530	Utilities	3,968,308	-	-	-
540	Transportation	1,125,216	146,414	550,541	-
550	Natural and Economic Environment	336,128	279,197	-	-
560	Social Services	39,383	39,383	-	-
570	Culture and Recreation	988,758	988,758	-	-
Total Expenditures:		10,117,310	5,102,810	550,541	-
Excess (Deficiency) Revenues over Expenditures:		2,912,703	115,742	339,440	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	342,893	-	-	-
397	Transfers-In	148,950	-	58,800	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	53,295	52,361	-	-
381, 395, 398	Other Resources	351,403	74,453	-	-
Total Other Increases in Fund Resources:		896,541	126,815	58,800	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,184,540	171,326	381,850	-
591-593, 599	Debt Service	1,024,600	-	-	-
597	Transfers-Out	148,950	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	53,184	52,267	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		2,411,273	223,593	381,850	-
Increase (Decrease) in Cash and Investments:		1,397,970	18,962	16,390	-
Ending Cash and Investments					
5081000	Reserved	1,028,299	21,859	181,054	5,330
5088000	Unreserved	8,058,632	819,237	-	-
Total Ending Cash and Investments		9,086,931	841,096	181,054	5,330

The accompanying notes are an integral part of this statement.

City of Ephrata
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		115 Cemetery Fund	120 Convention Center Fund	153 Park Development Fund	155 Capital Improvement Fund
Beginning Cash and Investments					
30810	Reserved	59,526	77,157	6,727	409,552
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	46,678	90,864	-	173,294
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	60,816	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	21,897	8,164	614	-
Total Revenues:		129,392	99,028	614	173,294
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	131,758	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	56,930	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		131,758	56,930	-	-
Excess (Deficiency) Revenues over Expenditures:		(2,367)	42,098	614	173,294
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	356	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		356	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	7,515	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	148,950
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	338	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		7,853	-	-	148,950
Increase (Decrease) in Cash and Investments:		(9,864)	42,098	614	24,344
Ending Cash and Investments					
5081000	Reserved	49,662	119,254	7,341	433,896
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		49,662	119,254	7,341	433,896

City of Ephrata
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		215 Fire Bond Reserve	299 GO Swimming Pool Redemption	340 CDBG Grant Fund	380 CDBG Grant Fund
Beginning Cash and Investments					
30810	Reserved	4,609	-	-	-
30880	Unreserved	-	4,765	9,629	335
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	60,204	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	878	-
Total Revenues:		60,204	-	878	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		60,204	-	878	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	90,150	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	90,150	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	59,256	90,035	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		59,256	90,035	-	-
Increase (Decrease) in Cash and Investments:		948	115	878	-
Ending Cash and Investments					
5081000	Reserved	5,556	-	-	-
5088000	Unreserved	-	4,880	10,508	335
Total Ending Cash and Investments		5,556	4,880	10,508	335

City of Ephrata
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		422 Sanitation Fund	424 Water/Sewer Fund	523 Equipment Rental Fund	702 Cemetery Care Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	199,453
30880	Unreserved	2,428,174	2,970,309	526,594	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	1,301,546	4,600,152	527,275	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	23,190	1,017	4,892
Total Revenues:		1,301,546	4,623,342	528,292	4,892
Expenditures					
510	General Government	3,486	6,972	-	-
520	Public Safety	-	-	-	-
530	Utilities	1,256,054	2,580,496	-	-
540	Transportation	-	-	428,262	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		1,259,540	2,587,468	428,262	-
Excess (Deficiency) Revenues over Expenditures:		42,006	2,035,874	100,030	4,892
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	342,893	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	578	-	-
381, 395, 398	Other Resources	276,950	-	-	-
Total Other Increases in Fund Resources:		276,950	343,471	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,245	505,121	114,483	-
591-593, 599	Debt Service	-	875,309	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	578	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		4,245	1,381,007	114,483	-
Increase (Decrease) in Cash and Investments:		314,711	998,337	(14,453)	4,892
Ending Cash and Investments					
5081000	Reserved	-	-	-	204,345
5088000	Unreserved	2,742,884	3,968,646	512,141	-
Total Ending Cash and Investments		2,742,884	3,968,646	512,141	204,345

CITY OF EPHRATA
Notes to the Financial Statements
For the year ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

The City of Ephrata was incorporated in 1909 and operates under the laws of the state of Washington applicable to a non-charter code city. The City of Ephrata is a general purpose local government and provides public safety, fire prevention, street improvement, parks and recreation, general administrative services, a city owned cemetery, water, sewer, and sanitation utilities.

The City of Ephrata 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.

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

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

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$4,291,125.00	\$4,086,239.53	\$204,885.47
Library Fund	\$214,900.00	\$203,713.58	\$11,186.42
Park Fund	\$892,700.00	\$838,424.45	\$54,275.55
Fire Reserve Fund	\$195,000.00	\$192,657.55	\$2,342.45

Police Reserve Fund	\$9,500.00	\$5,368.12	\$4,131.88
Street Fund	\$1,020,950.00	\$932,391.29	\$88,558.71
Cemetery Fund	\$147,450.00	\$139,611.27	\$7,838.73
Convention Center Fund	\$75,900.00	\$56,930.44	\$18,969.56
Park Development Fund	\$1,000.00	\$0	\$1,000.00
Capital Improvement	\$148,950.00	\$148,950.00	\$0.00
Fire Bond Redemption	\$61,300.00	\$59,256.00	\$2,044.00
GO Pool Bond	\$90,150.00	\$90,035.00	\$115.00
Sanitation Fund	\$1,336,800.00	\$1,263,785.79	\$73,014.21
Water-Sewer Fund	\$4,476,400.00	\$4,244,066.39	\$232,333.61
Water-Sewer Construction	\$4,547,530.00	\$1,565,379.71	\$2,982,150.29
Public Works Trust Fund	\$581,100.00	\$580,604.09	\$495.91
SRF Redemption Fund	\$487,650.00	\$294,704.72	\$192,945.28
Equipment Rental Fund	\$583,925.00	\$542,744.72	\$41,180.28
Cemetery Care Fund	\$2,000.00	\$0.00	\$2,000.00

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

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 35 days and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation or retirement employees do receive payment for unused sick leave once they reach a threshold of 200 hours up to a maximum of 480 hours. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. 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 intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

• 001 Fire Reserve Fund	\$ 21,859	Ordinance 15-19
• 112 Street Fund	\$181,054	RCW 47.24.040
• 113 Sidewalk Fund	\$ 5,330	EMC 19-22-020
• 115 Cemetery Fund	\$ 49,662	EMC 14-24-040
• 120 Convention Fund	\$119,254	RCW 67.28.180
• 153 Park Development Fund	\$ 7,341	EMC 18.04.780C & 18.04.580
• 155 Capital Improvement Fund	\$433,896	RCW 82.46.010 & 82.46.035
• 215 Fire Reserve Fund	\$ 5,556	Ordinance 15-19
• 702 Cemetery Care Fund	\$204,345	EMC 14.24.020

Note 2 – Deposits and Investments

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

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

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

<u>Type of Investment</u>	City's own investments	Total
L.G.I.P.	\$ 79,147.58	\$ 79,147.58
Grant Co Investment Pool	\$ 5,793,427.80	\$ 5,793,427.80
Certificate of Deposit	\$ <u>107,919.10</u>	\$ <u>107,919.10</u>
Total	\$ 5,980,494.48	\$ 5,980,494.48

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

The city's regular levy for the year 2017 was \$2.8260041294 per \$1,000 on an assessed valuation of \$428,089,240 for a total regular levy of \$1,209,781.96.

In November, 2015 the voters approved Proposition No. 1, Fire & Life Safety Equipment General Obligation Bond in the amount of \$820,000. This authorized the city to acquire a fire engine, command vehicle, ambulance/rescue truck and firefighting safety equipment. This General Obligation Bond has a maximum maturity term of 20 years.

Special Fire Bond levy for the year 2017 was \$0.1448124347 per \$1,000 on the excess assessed valuation of \$423,306,190 for a total special levy of \$61,300.00.

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2017.

The city received a \$120,000 loan from Department of Ecology Clean Water State Revolving Fund in 2015 which is a 50% principal forgiveness loan. As of December 31, 2017 the outstanding loan amount is \$59,548.00.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 980,120	\$ 65,927	\$1,046,047
2019	\$ 883,676	\$ 58,828	\$ 942,504
2020	\$ 888,860	\$ 54,533	\$ 943,393
2021	\$ 614,408	\$ 50,053	\$ 664,461
2022	\$ 600,898	\$ 45,616	\$ 646,514
2023-2027	\$2,628,650	\$166,353	\$2,795,003
2028-2032	\$1,145,878	\$ 72,518	\$1,218,396
2033-2035	<u>\$ 217,692</u>	<u>\$ 13,724</u>	<u>\$ 231,416</u>
TOTAL	\$7,960,182	\$527,552	\$8,487,734

Debt Guarantees

In 2004, city guaranteed the Public Works Trust Fund Revenue Debt of the Port of Ephrata, a legally separate entity. In the event that the Port of Ephrata is unable to make a payment, city will be required to make that payment. The total amount of outstanding debt subject of this guarantee at year end was \$129,737.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all city'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:

- Public Employees Retirement System (PERS) plans 1, 2 & 3
- Law Enforcement and Fire Fighters (LEOFF) plan 1 & 2

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 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, 2017 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities (09), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 7,510	.001249%	\$ 59,266
PERS 1 UALL	\$ 89,838	.014935%	\$ 708,677
PERS 2/3	\$ 117,335	.019210%	\$ 667,456
LEOFF 1	\$ -0-	.006269%	\$ (95,115)
LEOFF 2	\$ 70,551	.044660%	\$ (619,736)
VFFRPF	\$ -0-	.32%	\$ (119,610)

LEOFF Plan 1

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

Note 6 – Risk Management

The city 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 Inter-local Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together

by signing an Inter-local Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2017, there are 201 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 \$1.784,067.

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.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

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 Inter-local 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 Inter-local 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, 2017, were \$1,501,903.83.

Note 7 – Post Employment Benefits

Other post-employment Benefits (OPEB) are benefits that are provided to those employees retired from the Law Enforcement Officers and Fire Fighters Retirement Plan I (LEOFF I). Such benefits include medical, prescription drug, dental, vision, disability and long-term care. Employers pay 100% of "necessary medical services" for LEOFF I retirees. The city has four retirees which received benefits in 2017 for a total amount of \$35,041.00. Benefits provided were medical insurance premiums,

reimbursement of Medicare Part B insurance premiums, long-term care insurance premiums and qualified out-of-pocket medical expenses. Long-term care policies have been purchased for three of the four retirees to limit the city's potential future costs.

Note 8 – Pollution Dispute

The City of Ephrata and Grant County have been named potentially liable persons by the Department of Ecology at the Grant County Landfill for the alleged release of hazardous substances at the County Landfill. The City has adequate insurance coverage to mitigate any exposure incurred. To date, the City has received 100% reimbursement from insurance for the City's share of work performed at the Grant County Landfill.

At present, there has not been an agreement or assignment of Post Closure Costs to the city. Grant County, in their 2015 Audit Report, reported receiving an updated projection of the future estimated Post Closure Costs provided by the County's landfill closure monitoring consultant, which estimated as of year-end 2015, those costs to be \$6,938,000 over the next 27 years. It is estimated that post closure expenses will begin in 2030. The City could possibly be responsible for not more than 50% of that cost but that is highly unlikely and yet to be determined.

Note 9 – Accounting

In compliance with State Auditor requirements, the following funds were rolled into the General Fund (001):

- 014 – Library
- 016 – Park
- 054 – Fire Reserve
- 057 – Police Reserve
- 170 – Cooperative Growth

The following funds were rolled into the Water/Sewer Fund (424):

- 425 – Water/Sewer Construction
- 426 – Public Works Trust Fund
- 427 – SRF Reserve Fund
- 428 – SRF Redemption Fund

The following funds were rolled into the Equipment Rental Fund (523):

- 525 – Equipment Rental Reserve

Note 10 – Citizens Committee

The community Trails Committee is a citizens committee that is working on the development of a city-wide trail system in connection with the Healthy Communities Initiative. The Community Trails Committee is comprised of twelve to fifteen citizens, one Council member, the Director of Community Services and the Public Works Director. They have raised funds from private individuals and organizations. As of December 31, 2017 they have \$3,194 in the Columbia Basin Foundation Fund, and an approved QUADCO grant for \$128,500.

Note 11 – Joint Ventures

In 1995, City of Ephrata, along with 28 Grant County entities, entered in an Inter-local Cooperative Agreement under the authority of RCW Chapter 39.34 in order to provide for the joint operation of a

consolidated E911 emergency dispatch facility known as the Multi Agency Communications Center (MACC). MACC serves as the public safety answering point for all law enforcement and emergency response agencies in Grant County. The property acquired by MACC is shared by the participants in the Agreement to the same extent as they have made financial contributions to MACC. Grant County accounts for MACC as an Agency Fund and financial reports can be obtained for MACC at the Grant County Auditor's Office, 37 C Street NW, Ephrata, WA 98823.

Note 12 – Related Party Transactions

There are several Council members and Executive staff who serve on various community organizations and boards. Mayor Reim serves as a Board Member on the Grant Transit Authority Board (GTA). GTA provides public transportation to all of Grant County. The City has an Inter-local Agreement with GTA to lease the Intermodal Transportation Center. During 2017, the City received \$2,750.00 from GTA in lease payments.

City Administrator Crago serves on the Cities Insurance Association of Washington Board (CIAW). CIAW is a provider of General Liability, Auto Liability, Property, Equipment Breakdown, Crime, Auto Physical Damage and Uninsured Motorist insurance coverage for public entities. In 2017, the City paid a total of \$255,771 for insurance coverage.

Council member Wanke serves on the Grant County Health Board. They oversee the public health needs of Grant County. The City contributes \$1 per citizen to the Health District in support of their efforts to combat communicable and other diseases in Grant County. In 2017 the City contributed \$7,985 to Grant County Health District.

Council member Coe serves on the Grant County Economic Development Council (GCEDC). This Board promotes Grant County to commercial and industrial businesses in an effort to encourage them to set up business in Grant County. The City pays a yearly membership fee to GCEDC in the amount of \$4,000.00.

City of Ephrata
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	1999-Nonvoted GO Debt	12/1/2018	175,000	-	85,000	90,000
251.12	2015-Voted UTGO Bond	12/1/2035	795,000	-	30,000	765,000
Total General Obligation Debt/Liabilities:			970,000	-	115,000	855,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.84	1999-Dept of Ecology	6/1/2020	1,098,564	-	274,641	823,923
263.88	2003-PWTF Loan-Grandview	6/1/2022	438,061	-	73,011	365,050
263.88	2004-PWTF Loan-Port of Ephrata	6/1/2023	9,395	-	1,342	8,053
263.88	2005-PWTF Loan-Port of Ephrata	6/1/2025	136,895	-	15,211	121,684
263.88	2008-PWTF Loan-Waterline I,II,III	6/1/2028	4,048,110	-	337,343	3,710,767
263.88	2011-PWTF Loan-Waterline IV	6/1/2031	1,821,434	-	121,429	1,700,005
263.84	2015-DOE/CWSRF-Sewer Comp Plan	12/31/2021	20,766	38,782	-	59,548
263.84	2016-EPA/DWSRF-Basin St Waterline	10/1/2036	29,600	304,111	17,564	316,147
259.12	Compensated Absences		753,503	59,981	-	813,484
264.30	Pension Liability		1,896,546	-	461,147	1,435,399
263.97	Grant County Landfill Remedial Action	12/1/2030	502,186	-	-	502,186
Total Revenue and Other (non G.O.) Debt/Liabilities:			10,755,060	402,874	1,301,688	9,856,246
Total Liabilities:			11,725,060	402,874	1,416,688	10,711,246

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