



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

**Financial Statements Audit Report**  
**City of Othello**

**For the period January 1, 2019 through December 31, 2019**

**Published October 8, 2020**

**Report No. 1027059**





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

October 8, 2020

Mayor and City Council  
City of Othello  
Othello, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

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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 Othello  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Othello  
Othello, 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 Othello, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 30, 2020.

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 state law 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.

As discussed in Note 10 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City.

**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

September 30, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Othello January 1, 2019 through December 31, 2019

Mayor and City Council  
City of Othello  
Othello, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Othello, for the year ended December 31, 2019, 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 state law 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 Othello has prepared these financial statements to meet the financial reporting requirements of state law 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 cash and investments of the City of Othello, and its changes in cash and investments, for the year ended December 31, 2019, 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 Othello, as of December 31, 2019, or the changes in financial position or cash flows thereof 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.

## **Matters of Emphasis**

As discussed in Note 10 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

## **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 September 30, 2020 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 style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

September 30, 2020

## **FINANCIAL SECTION**

### **City of Othello January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

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

Schedule of Liabilities – 2019

**City of Othello**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Total for All Funds (Memo Only)</b>	<b>001 GENERAL FUND</b>	<b>101 STREET FUND</b>	<b>111 RESTRICTED DONATIONS</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	286,091	-	-	4,820
30880	Unreserved	12,472,970	1,850,900	919,858	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	5,973,528	4,679,483	795,989	-
320	Licenses and Permits	286,152	274,927	11,225	-
330	Intergovernmental Revenues	1,299,878	338,907	277,292	-
340	Charges for Goods and Services	7,733,412	353,120	3,500	-
350	Fines and Penalties	37,670	622	-	-
360	Miscellaneous Revenues	257,316	75,410	12,300	7,186
Total Revenues:		15,587,956	5,722,469	1,100,306	7,186
<b>Expenditures</b>					
510	General Government	609,458	609,458	-	-
520	Public Safety	3,247,697	3,238,332	-	9,365
530	Utilities	4,986,977	138	-	-
540	Transportation	833,426	-	833,426	-
550	Natural and Economic Environment	471,834	371,613	7,687	-
560	Social Services	2,253	2,253	-	-
570	Culture and Recreation	739,235	739,235	-	-
Total Expenditures:		10,890,880	4,961,029	841,113	9,365
Excess (Deficiency) Revenues over Expenditures:		4,697,076	761,440	259,193	(2,179)
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	319,300	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	6,846	6,846	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		326,146	6,846	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	3,265,858	617,866	113,626	-
591-593, 599	Debt Service	305,400	-	-	-
597	Transfers-Out	319,300	13,900	155,400	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	62,968	10,186	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		3,953,526	641,952	269,026	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>1,069,696</b>	<b>126,334</b>	<b>(9,833)</b>	<b>(2,179)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	107,970	-	-	2,642
5088000	Unreserved	13,720,793	1,977,231	910,025	-
<b>Total Ending Cash and Investments</b>		<b>13,828,763</b>	<b>1,977,231</b>	<b>910,025</b>	<b>2,642</b>

The accompanying notes are an integral part of this statement.

**City of Othello**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>114 TOURISM FUND</b>	<b>195 TRANSPORTATI ON</b>	<b>220 DEBT SERVICE - PWTF</b>	<b>225 G.O. BOND MAIN STREET PROJ.</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	44,430	173,789	-	-
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	48,153	372,681	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	531,660	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	686	-	-	-
Total Revenues:		48,839	904,341	-	-
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	53,500	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		53,500	-	-	-
Excess (Deficiency) Revenues over Expenditures:		(4,661)	904,341	-	-
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	30,379	275,021
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	30,379	275,021
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	907,775	-	-
591-593, 599	Debt Service	-	-	30,379	275,021
597	Transfers-Out	-	150,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	1,057,775	30,379	275,021
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(4,661)</b>	<b>(153,434)</b>	<b>-</b>	<b>-</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	39,769	20,354	-	-
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>39,769</b>	<b>20,354</b>	<b>-</b>	<b>-</b>

The accompanying notes are an integral part of this statement.

**City of Othello**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>335 REAL ESTATE EXCISE TAX FUND</b>	<b>401 WATER UTILITY FUND</b>	<b>404 SEWER UTILITY FUND</b>	<b>406 SOLID WASTE DISPOSAL</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	63,052	-	-	-
30880	Unreserved	-	1,540,460	8,078,650	83,102
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	77,222	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	152,019	-	-
340	Charges for Goods and Services	-	3,569,059	2,348,858	1,458,875
350	Fines and Penalties	-	37,048	-	-
360	Miscellaneous Revenues	222	19,992	140,959	561
Total Revenues:		77,444	3,778,118	2,489,817	1,459,436
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	2,355,449	1,320,098	1,311,292
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	18,117	14,812	6,105
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	2,373,566	1,334,910	1,317,397
Excess (Deficiency) Revenues over Expenditures:		77,444	1,404,552	1,154,907	142,039
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	13,900	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	13,900	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	95,293	1,437,357	81,526	12,415
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	262	52,520
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		95,293	1,437,357	81,788	64,935
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(17,849)</b>	<b>(18,905)</b>	<b>1,073,119</b>	<b>77,104</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	45,205	-	-	-
5088000	Unreserved	-	1,521,557	9,151,772	160,208
<b>Total Ending Cash and Investments</b>		<b>45,205</b>	<b>1,521,557</b>	<b>9,151,772</b>	<b>160,208</b>

**City of Othello**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Private-Purpose Trust</b>
		<hr/>
308	Beginning Cash and Investments	8,540
388 & 588	Net Adjustments	-
310-390	Additions	13,920
510-590	Deductions	12,635
		<hr/>
	Net Increase (Decrease) in Cash and Investments:	1,285
508	Ending Cash and Investments	9,825

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

**City of Othello**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019**

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

The City of Othello was incorporated on May 23, 1910 and operates under the laws of the state of Washington applicable to a second-class code city with a mayor-council form of government. The City of Othello is a general purpose local government and provides public safety, street improvement, parks and recreation, planning & zoning, and general administrative services. In addition, the City owns and operates water and sewer systems and contracts for garbage services.

The City of Othello 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

**General Fund**

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

**Special Revenue Funds**

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

**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.

### 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. For Othello this would include the Water Utility, Sewer Utility, and Solid Waste Utility funds.

### FIDUCIARY FUND TYPES:

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

#### Custodial Funds

These funds are used to account assets that the city 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 of Othello also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

### C. Cash and Investments

See Note 4, Deposits and Investments.

### D. Capital Assets

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

### E. Compensated Absences

Vacation leave may be accumulated up to 200 hours (240 for the PD union employees) and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. Upon retirement employees receive payment for 25% of unused sick leave. Payments are recognized as expenditures when paid.

### F. Long-Term Debt

See Note 3, *Debt Service Requirements*.

G. 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 the Council. 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:

<b>Fund</b>	<b>Reserved</b>	<b>Purpose:</b>
111	\$2,641.51	Donations
114	\$39,769.09	Tourism (Hotel/Motel Tax)
195	\$20,353.66	Transportation Improvement Fund
335	\$45,204.51	Real Estate Excise Tax fund

**Note 2 – Budget Compliance**

The City adopts annual appropriated budgets for all 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:

**2019 BUDGET BY FUND**

<b>Fund/Department</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenses</b>	<b>Variance</b>
001 - GENERAL FUND	6,608,071	5,599,934	1,008,137
101 - STREET FUND	1,366,041	1,110,139	255,902
103 - PARK & RECREATION RESERVE FUND	385,000	46,020	338,980
104 - REAL PROPERTY RESERVE FUND	80,760	80,566	194
105 - LEOFF RESERVE FUND	0	0	0
106 - FIRE EQUIPMENT RESERVE FUND	0	0	0
107 - WATER RESERVE FUND	120,000	18,117	101,883
108 - SEWER RESERVE FUND	15,000	14,812	188
109 - SOLID WASTE RESERVE FUND	0	0	0
110 - STREET RESERVE FUND	0	0	0
111 - RESTRICTED DONATIONS FUND	9,272	9,365	(93)
112 - CRIME PREVENTION FUND	8,400	8,101	299
113 - INVESTIGATION FUND	3,400	3,362	38
114 - TOURISM FUND	53,500	53,500	0

195 - TRANSPORTATION IMPROVEMENT FUND	1,226,056	1,057,776	168,280
220 - DEBT SERVICE - PWTF BROADWAY	30,379	30,379	0
223 - DEBT SERVICE-SR24 PWTF LOAN	0	0	0
225 - G.O. BOND MAIN STREET PROJ.	275,051	275,021	30
231 - G.O. REFUNDING BOND 2001	0	0	0
305 - SIDEWALK CONSTRUCTION FUND	0	0	0
310 - 2010 MAIN STREET PROJECT	0	0	0
335 - REAL ESTATE EXCISE TAX FUND	95,293	95,292	1
401 - WATER UTILITY FUND	10,864,127	3,792,805	7,071,322
404 - SEWER UTILITY FUND	2,782,649	2,656,884	125,765
406 - SOLID WASTE DISPOSAL FUND	1,385,867	1,382,331	3,536

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

### **Note 3 – 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, 2019.

The debt service requirements for general obligation bonds, revenue bonds and public works trust fund loans are as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$ 224,211	\$ 79,386	\$ 303,597
2021	\$ 229,211	\$ 73,178	\$ 302,389
2022	\$ 239,211	\$ 66,795	\$ 306,006
2023	\$ 244,211	\$ 59,441	\$ 303,652
2024	\$ 249,211	\$ 52,063	\$ 301,273
2025-2029	\$ 1,268,421	\$ 155,015	\$ 1,423,436
2030-2034	\$ 525,000	\$ 19,039	\$ 544,039
<b>Total</b>	<b>\$ 2,979,474</b>	<b>\$ 504,917</b>	<b>\$ 3,484,391</b>

The City was approved by USDA Rural Utility Service to receive a loan totaling \$1,720,000 to rehabilitate Well #3. The amount expensed for this loan (\$1,448,426.36) includes the eligible expenditures used during the year. However, because we have not yet drawn down this loan and incurred the liability, it is not reported on the city's Schedule of Liabilities.

### **Note 4 - Deposits and Investments**

Investments are reported at original cost. Deposits and investments by type at December 31, 2019 are as follows:

<b>Type of Deposit or Investment</b>	<b>Othello's own deposits and investments</b>	<b>Deposits and investments held by the City as a custodian for other local governments, individuals or private organizations</b>	<b>Total</b>
US Bank (Checking)	\$ 1,945,079.76	\$ 9,825.34	\$ 1,954,905.10
WA State LGIP	\$ 5,538,592.65	\$ -	\$ 5,538,592.65
US Bank (Safekeeping)	\$ 6,345,088.74	\$ -	\$ 6,345,088.74
<b>Total</b>	<b>\$13,828,761.15</b>	<b>\$ 9,825.34</b>	<b>\$13,838,586.49</b>

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

#### Investments in the State Local Government Investment Pool (LGIP)

The City is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer. PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

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 or its agent in the City's name.

#### **Note 5 – Interfund Loans**

The following Table Displays interfund loan activity during 2019:

<b>Borrowing Fund</b>	<b>Lending Fund</b>	<b>Balance 1/1/2019</b>	<b>New Loans</b>	<b>Repayments (Principal)</b>	<b>Balance 12/31/2019</b>
Street Fund	Sewer Fund	\$ 100,000	\$ -	\$ 100,000	\$ -

#### **Note 6 – OPEB Plans**

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the city as required by state law. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of this report, the plan had five (5) members, all retirees. Using the calculation tool provided by the Office of the Washington State Actuary, the City recognizes \$2,758,687 as an outstanding liability for OPEB. For the year ended December 31, 2019, the city paid \$43,615.53 in benefits.

#### **Note 7 - Pension Plans**

##### A. State Sponsored 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 (Public Employees' Retirement System (PERS), Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)).

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

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

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98540-8380

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

At June 30, 2019 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$ 101,918.49	0.014214%	\$ 546,579
PERS 2/3	\$ 149,765.34	0.018337%	\$ 178,115
LEOFF 1		0.013758%	\$ (271,942)
LEOFF 2	\$ 66,020.05	0.035808%	\$ (829,561)

#### 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.

#### B. Deferred Contribution Pension Plans

The City participates in the Deferred Contribution Plan provided and administered by the State of Washington Department of Retirement Systems. This is available to all qualifying employees.

For members of the Police Sergeants, Police Line officers, and Police Dispatchers unions, the City shall match the employee's contribution, up to two percent (2%) of the employee's base wage into the plan.

In 2019 the City contributed \$11,915.70 in matching dollars for eligible union members.

#### **Note 8 - 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 the 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 2019 was \$3.14311689 per \$1,000 on an assessed valuation of \$525,236,189 for a total regular levy of \$1,650,879.

#### **Note 9 – Risk Management**

The City of Othello is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 163 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy

direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

**Note 10 - Other Disclosures**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, canceling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The City of Othello is aware that there will be significant financial impacts, including revenue shortfalls. We are taking steps to reduce our expenses to meet these challenges. We are reviewing our 2020 budget and restricting department activities to essential functions only. The length of time these measures will be in place, and the full extent of the financial impact on the City is unknown at this time.

**City of Othello**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2019**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
263.87	PWTF - 2006 Broadway Reconstruction	6/1/2026	233,684	-	29,211	204,473
251.11	GO Bonds - MAin Street (unrefunded)	12/1/2025	945,000	-	120,000	825,000
251.11	GO BOnds - Main Street (refunded)	12/1/2031	2,020,000	-	70,000	1,950,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>3,198,684</b>	<b>-</b>	<b>219,211</b>	<b>2,979,473</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
264.30	Net Pension Liability		892,220	-	167,527	724,693
264.40	OPEB Liability		-	2,758,687	-	2,758,687
259.12	Compensated Absences		370,297	-	4,417	365,880
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,262,517</b>	<b>2,758,687</b>	<b>171,944</b>	<b>3,849,260</b>
<b>Total Liabilities:</b>			<b>4,461,201</b>	<b>2,758,687</b>	<b>391,155</b>	<b>6,828,733</b>

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>