



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Orting

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

Published April 1, 2021

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

April 1, 2021

Mayor and City Council
City of Orting
Orting, Washington

Report on Financial Statements

Please find attached our report on the City of Orting'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

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INDEPENDENT AUDITOR'S REPORT

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 Orting January 1, 2019 through December 31, 2019

Mayor and City Council
City of Orting
Orting, 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 Orting, 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 March 15, 2021.

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 2019 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

March 15, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Orting **January 1, 2019 through December 31, 2019**

Mayor and City Council
City of Orting
Orting, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Orting, 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 Orting 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 Orting, 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 Orting, 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 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 10. 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 March 15, 2021 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

March 15, 2021

FINANCIAL SECTION

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

		Total for All Funds (Memo Only)	001 Current Expense	101 City Streets	104 Cemetery
Beginning Cash and Investments					
30810	Reserved	1,502,331	-	-	-
30880	Unreserved	17,804,959	3,783,305	291,572	45
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	3,578,155	2,911,233	217,104	-
320	Licenses and Permits	254,831	254,831	-	-
330	Intergovernmental Revenues	855,867	257,449	184,442	-
340	Charges for Goods and Services	5,544,454	269,050	-	24,602
350	Fines and Penalties	108,239	63,104	-	-
360	Miscellaneous Revenues	457,983	99,633	27,625	1,050
Total Revenues:		10,799,529	3,855,300	429,171	25,652
Expenditures					
510	General Government	1,072,331	937,216	3,330	2,170
520	Public Safety	2,013,087	2,013,087	-	-
530	Utilities	2,579,505	5,582	14	29,152
540	Transportation	245,627	(15)	244,263	-
550	Natural and Economic Environment	224,304	224,304	-	-
560	Social Services	2,296	2,296	-	-
570	Culture and Recreation	393,726	167,005	-	-
Total Expenditures:		6,530,876	3,349,475	247,607	31,322
Excess (Deficiency) Revenues over Expenditures:		4,268,653	505,825	181,564	(5,670)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	48,597	48,597	-	-
397	Transfers-In	6,829,679	-	55,412	22,014
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	13,205	12,879	-	326
381, 382, 395, 398	Other Resources	143,855	2,523	-	-
Total Other Increases in Fund Resources:		7,035,336	63,999	55,412	22,340
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,830,207	140,748	41,748	-
591-593, 599	Debt Service	400,780	49,018	-	-
597	Transfers-Out	6,829,679	3,225,217	372,181	4,997
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	5,546	5,486	-	-
581, 582	Other Uses	139,000	-	-	-
Total Other Decreases in Fund Resources:		12,205,212	3,420,469	413,929	4,997
Increase (Decrease) in Cash and Investments:		(901,223)	(2,850,645)	(176,953)	11,673
Ending Cash and Investments					
5081000	Reserved	1,616,084	-	-	-
5088000	Unreserved	16,789,986	932,659	114,620	11,715
Total Ending Cash and Investments		18,406,070	932,659	114,620	11,715

The accompanying notes are an integral part of this statement.

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

		105 Parks Department	107 Tourism Fund	108 TBD	120 Police Department Drug
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	780,998	6,283	220,239	3,844
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	308,319	601	140,898	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	4,814	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	23,231	152	6,554	89
Total Revenues:		336,364	753	147,452	89
Expenditures					
510	General Government	4,093	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	107	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	226,721	-	-	-
Total Expenditures:		230,921	-	-	-
Excess (Deficiency) Revenues over Expenditures:		105,443	753	147,452	89
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	77,806	-	86,587	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	204,253	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		282,059	-	86,587	-
Increase (Decrease) in Cash and Investments:		(176,616)	753	60,865	89
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	604,381	7,037	281,105	3,933
Total Ending Cash and Investments		604,381	7,037	281,105	3,933

The accompanying notes are an integral part of this statement.

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

		202 LOCAL Vehicle Purchase 2016	203 LOCAL Backhoe Purchase 2017	303 Emergency Evacuation Bridge Fund	304 City Hall Construction
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	-	-	-	444,591
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	336,831	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	-	29,719
Total Revenues:		-	-	336,831	29,719
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:		-	-	336,831	29,719
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	100,534	24,085	171,884	5,255,750
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		100,534	24,085	171,884	5,255,750
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	453,303	1,429,521
591-593, 599	Debt Service	100,534	24,085	-	-
597	Transfers-Out	-	-	55,412	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		100,534	24,085	508,715	1,429,521
Increase (Decrease) in Cash and Investments:		-	-	-	3,855,948
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	-	-	-	4,300,540
Total Ending Cash and Investments		-	-	-	4,300,540

The accompanying notes are an integral part of this statement.

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

		320			
		Transportation	401 Water	408 Wastewater	410 Stormwater
		Impact			
Beginning Cash and Investments					
30810	Reserved	519,360	-	-	-
30880	Unreserved	-	1,552,126	7,571,441	2,381,694
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	77,145
340	Charges for Goods and Services	91,977	1,947,073	2,325,269	881,669
350	Fines and Penalties	-	45,135	-	-
360	Miscellaneous Revenues	9,990	45,031	153,237	39,139
Total Revenues:		101,967	2,037,239	2,478,506	997,953
Expenditures					
510	General Government	-	46,217	67,847	11,458
520	Public Safety	-	-	-	-
530	Utilities	-	1,075,844	990,993	477,813
540	Transportation	1,379	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		1,379	1,122,061	1,058,840	489,271
Excess (Deficiency) Revenues over Expenditures:		100,588	915,178	1,419,666	508,682
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	139,000	2,332
Total Other Increases in Fund Resources:		-	-	139,000	2,332
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,740	141,669	403,900	161,076
591-593, 599	Debt Service	-	227,143	-	-
597	Transfers-Out	-	681,619	1,616,525	669,475
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	60
581, 582	Other Uses	-	139,000	-	-
Total Other Decreases in Fund Resources:		3,740	1,189,431	2,020,425	830,611
Increase (Decrease) in Cash and Investments:		96,848	(274,253)	(461,759)	(319,597)
Ending Cash and Investments					
5081000	Reserved	616,208	-	-	-
5088000	Unreserved	-	1,277,876	7,109,681	2,062,099
Total Ending Cash and Investments		616,208	1,277,876	7,109,681	2,062,099

The accompanying notes are an integral part of this statement.

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

		412 Utility Land Acquisition	701 Cemetery Perpetual Fund	704 Skinner Estate Fund
Beginning Cash and Investments				
30810	Reserved	-	510,217	472,754
30880	Unreserved	768,821	-	-
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	5,628	8,775	8,130
Total Revenues:		5,628	8,775	8,130
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:		5,628	8,775	8,130
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	1,200,000	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		1,200,000	-	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	1,890,109	-	-
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		1,890,109	-	-
Increase (Decrease) in Cash and Investments:		(684,481)	8,775	8,130
Ending Cash and Investments				
5081000	Reserved	-	518,992	480,884
5088000	Unreserved	84,340	-	-
Total Ending Cash and Investments		84,340	518,992	480,884

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	Custodial
308	Beginning Cash and Investments	8,922	8,922
388 & 588	Net Adjustments	-	-
310-390	Additions	78,767	78,767
510-590	Deductions	79,366	79,366
	Net Increase (Decrease) in Cash and Investments:	(599)	(599)
508	Ending Cash and Investments	8,324	8,324

The accompanying notes are an integral part of this statement.

City of Orting
Notes to the Financial Statements
For the year ended December 31, 2018

Note 1 - Summary of Significant Accounting Policies

The City of Orting was incorporated on April 22, 1889 and operates under the laws of the state of Washington applicable to an optional code city with a Mayor-Council form of government. The City of Orting is a general purpose local government and provides public safety, fire prevention, street improvement, parks and recreation, health and social services, and general administrative services. In addition, the City owns and operates a water and sewer system.

The City of Orting 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. (see note to 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 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.

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Custodial 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 of Orting 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 3, *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 thirty days and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. Upon separation or retirement non-management employees receive payment for unused sick leave depending on their tenure. Upon separation or retirement managers receive 25% of a maximum accumulation of 960 hours of sick leave. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 6, *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 city's legislative body. 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:

General Facility Charge/Impact Fee Reserve:

Transportation Impact	\$615,000
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Note 2 – Budget Compliance

A. Budgets

The City of Orting adopts annual appropriated budgets. 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:	6,963,472.48	6,769,943.09	193,529.39
Streets:	1,037,163.95	661,532.89	375,631.06
Cemetery:	47,211.75	36,321.34	10,890.41
Parks:	1,206,311.85	512,980.11	693,331.74
162 Bridge:	790,720.00	508,715.41	282,004.59
City Hall Construction:	5,724,534.00	1,429,519.69	4,295,014.31
Tourism:	5,720.00	-	5,720.00
TBD:	199,200.00	86,586.96	112,613.04
Police Drug:	3,829.60	-	3,829.60
2016 Vehicle Purchase:	101,046.05	100,534.07	511.98
*2017 Backhoe Purchase:	23,355.00	24,084.68	(729.68)
Transportation Impact:	450,000.00	5,118.75	444,881.25
Water:	2,602,265.03	2,311,488.34	290,776.69
Wastewater:	5,412,190.41	3,079,265.43	2,332,924.98
Stormwater:	2,795,732.10	1,319,880.26	1,475,851.84
Utility Facility:	1,974,187.97	1,890,108.70	84,079.27
Skinner:	2,000.00	-	2,000.00

*The 2017 Backhoe Purchase fund exists for funding debt that was authorized by Ordinance 2017-1013. The budget for this fund is presented for information purposes as repayment for the debt was authorized by adoption of the ordinance.

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.

Note 3 – Deposits and Investments

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

<u>Type Deposit or Investment</u>	<u>City's own investments</u>	<u>Investments held by city as an agent for other local governments, individuals or private organizations.</u>	<u>Total</u>
Bank deposits			
L.G.I.P.	\$11,993,678.35	\$0.00	\$11,993,678.35
U.S. Government & Agency Securities	\$4,800,643.54	\$0.00	\$4,800,643.54
Total	\$16,794,321.89	\$0.00	\$16,794,321.89

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/county/district) 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.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The city's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the city or its agent in the government's name.

Note 4 - 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 \$1.6000 per \$1,000 on an assessed valuation of \$801,618,373 for a total regular levy of \$1,288,970.

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2018:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance</u> <u>1/1/2019</u>	<u>New Loan</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/2019</u>
Water	Wastewater	\$139,000	\$0	\$139,000	\$0

Note 6 – 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 loans are as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$ 54,868.10	\$ 341,907.14	\$ 396,775.23
2020	\$ 54,433.54	\$ 349,682.26	\$ 404,115.79
2021	\$ 32,187.10	\$ 357,868.99	\$ 390,056.09
2022	\$ 23,380.98	\$ 205,799.61	\$ 229,180.59
2023	\$ 18,242.62	\$ 203,775.39	\$ 222,018.02
2024-2028	\$ 48,886.73	\$ 814,778.87	\$ 863,665.60
2029-2030	\$ 2,444.34	\$ 162,955.77	\$ 165,400.11
TOTALS	\$ 234,443.41	\$ 2,436,768.03	\$ 2,671,211.43

Note 7 – 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.

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

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

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

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

At June 30, 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:

	<u>Employer Contributions</u>	<u>Allocation %</u>	<u>Liability (Asset)</u>
PERS 1	\$85,788	0.011964%	\$460,058
PERS 2/3	\$126,235	0.015456%	\$ 150,130
LEOFF 2	\$48,100	0.026088%	(\$604,379)

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 8 – Risk Management

The City of Orting 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, 2019, 100 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, with the exception of pollution liability, 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, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, 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 Great American for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy 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. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2019, AWC RMSA carried a retention of \$200,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

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.

Note 9 – Health & Welfare

The City of Orting 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, 2019, 261 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: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington 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 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Note 10 – Subsequent Events – COVID-19 Pandemic

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, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The Mayor of Orting has also declared an emergency due to the ongoing pandemic. Management expects to have costs that were not contemplated in the 2020 budget, but we have been taking steps to mitigate the impact on the amounts that were originally allocated in the budget. It is not clear at this time what the full 2020 impact of this pandemic and likely recession will cause to the City's finances, but we will continue to monitor the situation and adjust expenses to preserve the city's financial position.

Note 11 – Construction Commitment

The City has an active construction project as of December 31, 2020 which includes the construction of new municipal facilities.

At year-end the city has spent \$1,011,957 with our contractor with \$4,463,381 remaining.

Cash to pay for this project has been placed in a separate fund and the project is completely cash financed and no additional funds are anticipated to be raised to complete the project.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	LOCAL Backhoe Purchase	6/1/2021	67,037	-	21,264	45,773
251.11	LOCAL Vehicle Purchase	6/1/2021	279,822	-	88,762	191,060
263.51	2018 Police Vehicle Purchase	11/7/2023	156,324	48,597	37,979	166,942
Total General Obligation Debt/Liabilities:			503,183	48,597	148,005	403,775
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		219,540	225,748	201,683	243,605
264.30	Pension liabilities		767,142	-	156,953	610,189
263.82	Harman Reservoir	10/1/2021	91,966	-	30,655	61,311
263.82	North End Reservoir	10/1/2029	1,802,040	-	163,822	1,638,218
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,880,688	225,748	553,113	2,553,323
Total Liabilities:			3,383,871	274,345	701,118	2,957,098

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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