



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Soap Lake

For the period January 1, 2020 through December 31, 2020

Published May 1, 2023

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

May 1, 2023

Mayor and City Council
City of Soap Lake
Soap Lake, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Soap Lake's financial statements and compliance with federal laws and regulations.

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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TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Audit Findings and Responses.....	6
Schedule of Federal Award Findings and Questioned Costs.....	9
Summary Schedule of Prior Audit Findings	12
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 <i>Government Auditing Standards</i>	14
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	17
Independent Auditor's Report on the Financial Statements.....	21
Financial Section.....	25
Corrective Action Plan for Findings Reported Under Uniform Guidance	43
About the State Auditor's Office.....	45

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Soap Lake January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Soap Lake are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
10.760	Water and Waste Disposal Systems for Rural Communities

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2020-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2020-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Soap Lake January 1, 2020 through December 31, 2020

2020-001 The City's internal controls over preparing financial statements were inadequate for ensuring accurate reporting.

Background

City officials, state and federal agencies, and the public rely on the information in the financial statements and reports to make decisions. City management is responsible for designing and following internal controls to ensure the financial statements, notes to financial statements and supplementary schedules are accurate, and to provide reasonable assurance regarding the reliability of financial reporting.

The City prepares its financial statements, notes and supplementary schedules in accordance with the cash basis accounting method prescribed in the State Auditor's Office's *Budgeting, Accounting and Reporting System (BARS)* Manual.

State law (RCW 43.09.230) requires local governments to submit annual financial reports to the State Auditor's Office within 150 days of fiscal year-end. As part of the annual financial report, all local governments that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA). Local governments that spend \$750,000 or more in federal funds must receive a federal Single Audit.

Government Auditing Standards requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding. The Applicable Laws and Regulations section below defines the standards for material weaknesses.

Description of Condition

Our audit found the following deficiencies in internal controls over preparing financial statements. When taken together, they represent material weaknesses.

- City staff responsible for compiling financial information lacked the technical knowledge and experience needed to accurately prepare the financial statements and supplementary schedules, including the SEFA.
- The City lacked an effective review process for ensuring amounts reported in the financial statements, notes to the financial statements, and

supplementary schedules were consistent with underlying accounting records, had supporting documentation and followed BARS Manual guidance.

This issue was reported as a finding in the prior two audits.

Cause of Condition

The City experienced turnover in its Finance Department, resulting in multiple employees being involved in the financial activity and operations. Additionally, the City did not dedicate the necessary time to train new employees responsible for overseeing and preparing the annual financial report to ensure they prepared financial statements accurately.

Effect of Condition

Because of the deficiencies in internal controls over preparing financial statements, our audit found the following:

- The City understated its 2020 SEFA by about \$2.33 million. As a result, the City did not obtain a federal Single Audit for 2020 in time to submit the results to the Federal Audit Clearinghouse by September 30, 2021.
- The City could not support the accuracy of liabilities on its Schedule of Liabilities, resulting in a total understatement of about \$1.77 million.

We also identified less significant errors in the financial statements, notes and supplementary schedules. The City corrected most of the errors we identified.

Recommendation

We recommend management provide training to staff with financial reporting responsibilities and dedicate the necessary resources to improve its internal controls over financial reporting. Specifically, management should ensure the City:

- Prepares accurate financial statements, notes, and supplementary schedules (such as the SEFA) in accordance with the BARS Manual
- Conducts an effective review of the financial statements, notes, and schedules to identify and correct errors before submitting the annual report for audit

City's Response

The City of Soap Lake concurs with the financial deficiencies as noted by the auditors. The city has had considerable turnover in financial staff over the last five years, which explains but does not excuse what these findings reveal. We have allotted funding to train and educate our whole staff to ensure knowledge to accurately prepare and report financial statements.

Auditor's Remarks

We appreciate the City's commitment to respond to these issues and thank the city for its cooperation and assistance during the audit. We will review the corrective action taken during the next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – uniform system of accounting.

Budgeting, Accounting, and Reporting Systems (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control.

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Soap Lake January 1, 2020 through December 31, 2020

2020-002 The City did not have adequate internal controls for ensuring compliance with federal procurement requirements.

Assistance Listing Number and Title:	10.760 - Water and Waste Disposal Systems for Rural Communities
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Known Questioned Cost Amount:	\$0

Background

The Water and Waste Disposal Systems for Rural Communities program is designed to assist rural communities in obtaining safe drinking water and adequate waste disposal facilities, which are prerequisites for economic growth. During fiscal year 2020, the City spent \$3,960,279 in loan and grant funds awarded by the U.S. Department of Agriculture Rural Utilities Service. The City used this program funding for its water and sewer improvement projects.

Federal regulations require recipients to establish and follow internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

Federal regulations require recipients to follow their own documented procurement procedures, which must conform to the Uniform Guidance procurement standards found in 2 CFR § 200.318-327. The procedures must reflect the most restrictive of applicable federal requirements, state laws and local policies. When using federal funds to procure goods and services, governments must apply the more restrictive requirements by obtaining quotes or following a competitive procurement process, depending on the estimated cost of the procurement activity.

Additionally, federal regulations require recipients to maintain written standards of conduct covering conflicts of interest and governing the actions of employees engaged in selecting, awarding or administering contracts with federal funds.

Description of Condition

Although the City has written procurement policies that allow it to initiate and approve the procurement of goods and services, the policies do not conform to the most restrictive requirements and do not include required procedures to follow for soliciting and awarding public works contracts. Additionally, the City's policies do not include other required procedures for procuring transactions, such as obtaining quotations for small purchases, requesting proposals for architectural and engineering services, piggybacking, contract cost and price analysis, bonding requirements, and more.

We also found the City has not established written standards of conduct procedures, which federal regulations require.

We consider these deficiencies in internal controls to be a material weakness that led to material noncompliance.

This issue was reported as a finding in the prior audit as finding 2019-002.

Cause of Condition

The City has not received regular federal grant compliance audits, and staff and management were not aware of the requirements to update the City's written procurement policies and procedures to comply with federal regulations. Staff and management also did not know the City was required to establish standards of conduct policies.

Effect of Condition

Although the City's policies did not conform to Uniform Guidance, our testing found the City complied with federal requirements for competitive solicitation of public works contractors. However, without updated written procurement procedures, the City is at greater risk of noncompliance with the most restrictive procedures when procuring contractors with federal funds.

Recommendation

We recommend the City update its written procurement policies to conform to Uniform Guidance (2 CFR § 200.318-327) for all procurement activities. We further recommend the City establish written standards of conduct procedures that also comply with Uniform Guidance requirements.

City's Response

We are reviewing current Procedure and Purchasing Policy for updating, to correctly reflect the Federal requirements.

Auditor's Remarks

We appreciate the City's commitment to respond to these issues and thank the city for its cooperation and assistance during the audit. We will review the corrective action taken during the next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR 200, Uniform Guidance, section 318 General procurement standards, establishes requirements for documented procurement procedures which reflect applicable state, local and federal laws and regulations.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Soap Lake January 1, 2020 through December 31, 2020

This schedule presents the status of findings reported in prior audit periods.

Audit Period: 2019	Report Ref. No.: 1028292	Finding Ref. No.: 2019-001
Finding Caption: The City's internal controls over preparing financial statements were inadequate for ensuring accurate reporting.		
Background: Our audit found the following deficiencies in internal controls over preparing financial statements. When taken together, they represent material weaknesses. <ul style="list-style-type: none">• City staff responsible for compiling financial information lacked the technical knowledge and experience needed to accurately prepare the financial statements and supplementary schedules, including the SEFA.• The City lacked an effective review process for ensuring amounts reported in the financial statements, notes to the financial statements, and supplementary schedules were consistent with underlying accounting records, had supporting documentation and followed BARS Manual guidance.		
Status of Corrective Action: <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>We have allotted funding to train and educate our whole staff to ensure knowledge to accurately prepare and report financial statements.</i>		

Audit Period: 2019	Report Reference No.: 1028292	Finding Ref. No.: 2019-002	CFDA Number(s): 10.760
Federal Program Name and Granting Agency: Water and Waste Disposal Systems for Rural Communities		Pass-Through Agency Name: U.S. Department of Agriculture	
Finding Caption: The City did not have adequate internal controls for ensuring compliance with federal procurement and reporting requirements.			
Background: <u>Procurement</u> Although the City has written procurement policies that allow it to initiate and approve the procurement of goods and services, the policies do not conform to the most restrictive requirements and do not include required procedures to follow for soliciting and awarding public works contracts. Additionally, the City's policies did not include other required procedures for procuring transactions, such as obtaining quotations for small purchases, requesting proposals for architectural and engineering services, piggybacking, contract cost and price analysis, bonding requirements, and more. Finally, we also found the City has not established written standards of conduct procedures, which federal regulations require. <u>Reporting</u> The City did not have procedures in place to submit its required forms to USDA during fiscal year 2019. We consider these internal control deficiencies to be material weaknesses, which led to material noncompliance.			
Status of Corrective Action: <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>We are reviewing current Procedure and Purchasing Policy for updating, to correctly reflect the Federal requirements.</i>			

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 Soap Lake January 1, 2020 through December 31, 2020

Mayor and City Council
City of Soap Lake
Soap Lake, 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 Soap Lake, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated April 24, 2023.

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.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2020-001, that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

CITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

April 24, 2023

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Soap Lake
January 1, 2020 through December 31, 2020

Mayor and City Council
City of Soap Lake
Soap Lake, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Soap Lake, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-002 that we consider to be a material weakness.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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

April 24, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Soap Lake January 1, 2020 through December 31, 2020

Mayor and City Council
City of Soap Lake
Soap Lake, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Soap Lake, as of and for the year ended December 31, 2020, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Soap Lake, and its changes in cash and investments, for the year ended December 31, 2020, on the basis of accounting described in Note 1.

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 Soap Lake, as of December 31, 2020, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2023 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

April 24, 2023

FINANCIAL SECTION

City of Soap Lake January 1, 2020 through December 31, 2020

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2020
Notes to the Financial Statements – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2020
Schedule of Expenditures of Federal Awards – 2020
Notes to the Schedule of Expenditures of Federal Awards – 2020

City of Soap Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	104 K9 Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	830,058	(120,994)	(4,076)	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	1,125,140	1,020,908	-	-
320	Licenses and Permits	40,769	40,769	-	-
330	Intergovernmental Revenues	3,642,743	199,333	1,349,347	-
340	Charges for Goods and Services	1,897,359	97,371	-	-
350	Fines and Penalties	2,033	2,033	-	-
360	Miscellaneous Revenues	235,869	184,451	242	28,294
Total Revenues:		6,943,913	1,544,865	1,349,589	28,294
Expenditures					
510	General Government	184,629	184,629	-	-
520	Public Safety	1,048,399	1,023,410	-	24,989
530	Utilities	2,013,973	-	-	-
540	Transportation	145,163	122	141,843	-
550	Natural/Economic Environment	43,951	43,951	-	-
560	Social Services	3,170	3,170	-	-
570	Culture and Recreation	162,755	148,654	-	-
Total Expenditures:		3,602,040	1,403,936	141,843	24,989
Excess (Deficiency) Revenues over Expenditures:		3,341,873	140,929	1,207,746	3,305
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	3,122,974	56,000	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	42,201	26,391	-	-
Total Other Increases in Fund Resources:		3,165,175	82,391	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,548,018	80,793	1,373,111	-
591-593, 599	Debt Service	450,876	85,035	7,829	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	29,025	17,770	11,255	-
Total Other Decreases in Fund Resources:		5,027,919	183,598	1,392,195	-
Increase (Decrease) in Cash and Investments:		1,479,129	39,722	(184,449)	3,305
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	1,154,539	5,979	-	3,305
50841	Committed	-	-	-	-
50851	Assigned	1,505,811	-	-	-
50891	Unassigned	(351,160)	(87,251)	(188,525)	-
Total Ending Cash and Investments		2,309,190	(81,272)	(188,525)	3,305

The accompanying notes are an integral part of this statement.

City of Soap Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		105 Stadium Tax Fund	107 Lava Light Project	108 Real Estate Excise Tax	110 Transportation Benefit District
Beginning Cash and Investments					
308	Beginning Cash and Investments	29,400	145,816	133,302	141,816
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	33,475	-	38,602	32,155
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	122	186	212	-
Total Revenues:		33,597	186	38,814	32,155
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	3,198
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	14,101	-	-	-
Total Expenditures:		14,101	-	-	3,198
Excess (Deficiency) Revenues over Expenditures:		19,496	186	38,814	28,957
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	28,691	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	28,691	-
Increase (Decrease) in Cash and Investments:		19,496	186	10,123	28,957
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	48,895	146,002	143,426	170,773
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		48,895	146,002	143,426	170,773

City of Soap Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		301 Capital Projects Fund	302 2017 Limited Obligation Bond	401 Water Utility Fund	402 Solid Waste Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	-	133,733	322,371	238,084
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	2,094,063	-
340	Charges for Goods and Services	-	-	656,606	323,489
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	626	16,415
Total Revenues:		-	-	2,751,295	339,904
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	813,791	306,001
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	813,791	306,001
Excess (Deficiency) Revenues over Expenditures:		-	-	1,937,504	33,903
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	250,000	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	5,270	5,270
Total Other Increases in Fund Resources:		-	250,000	5,270	5,270
Other Decreases in Fund Resources					
594-595	Capital Expenditures	60,000	2,665	1,170,387	125,620
591-593, 599	Debt Service	-	-	110,461	10,569
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		60,000	2,665	1,280,848	136,189
Increase (Decrease) in Cash and Investments:		(60,000)	247,335	661,926	(97,016)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	381,069	255,090	-
50841	Committed	-	-	-	-
50851	Assigned	-	-	729,206	141,068
50891	Unassigned	(60,000)	-	-	-
Total Ending Cash and Investments		(60,000)	381,069	984,296	141,068

City of Soap Lake
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		403 Sewer Utility Fund	406 Mineral Water Fund
Beginning Cash and Investments			
308	Beginning Cash and Investments	(171,540)	(17,854)
388 / 588	Net Adjustments	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	811,214	8,679
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	4,979	342
Total Revenues:		816,193	9,021
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	887,630	6,551
540	Transportation	-	-
550	Natural/Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		887,630	6,551
Excess (Deficiency) Revenues over Expenditures:		(71,437)	2,470
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	2,816,974	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
381, 382, 389, 395, 398	Other Resources	5,270	-
Total Other Increases in Fund Resources:		2,822,244	-
Other Decreases in Fund Resources			
594-595	Capital Expenditures	1,706,751	-
591-593, 599	Debt Service	236,982	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	-	-
581, 582, 589	Other Uses	-	-
Total Other Decreases in Fund Resources:		1,943,733	-
Increase (Decrease) in Cash and Investments:		807,074	2,470
Ending Cash and Investments			
50821	Nonspendable	-	-
50831	Restricted	-	-
50841	Committed	-	-
50851	Assigned	635,537	-
50891	Unassigned	-	(15,384)
Total Ending Cash and Investments		635,537	(15,384)

The accompanying notes are an integral part of this statement.

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

Note 1 - Summary of Significant Accounting Policies

The City of Soap Lake was incorporated on June 9, 1919 and operates under the laws of the state of Washington applicable to a non-charter code city. The city is a general-purpose local government and provides public safety, street improvements, parks and recreation, and general and administrative services. In addition, Soap Lake owns, maintains and operates a water distribution system, a sewer transmission system, solid waste operations and a wastewater treatment plant.

The city 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 presented using classifications that are similar to the ending balance classification 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.

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

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 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 \$7,500 and an estimated useful life in excess of two years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 80 working hours for one to five years or service, 120 working hours for six to ten years or service, 160 working hours for 11 to 15 years or service and an additional eight working hours for each incremental year of service after 16 years, and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. Upon separation or retirement employees do receive payment for 25% of unused sick leave. Payments are recognized as expenditures when paid. The accompanying compensated absence balances on Schedule of Liabilities includes estimated cost for employer benefits plus employer FICA and Medicare. The total compensated absence balance due as of December 31, 2020 is \$62,382.82

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

F. Long-Term Debt

See Note 6 – *Debt Service Requirements*.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the city intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of

Fund Name	Portion of Ending Balance Restricted	Portion of Ending Balance Committed	Combined	Reason for Restriction or Commitment
General Fund	5,979		5,979	Donations for Shop with a Cop
K9 Fund	3,305		3,305	Restricted for K9 Program
Stadium Tax	48,895		48,895	Restricted due to RCW restrictions on tourism funds
Lava Light Project	146,002		146,002	Restricted due to donations for Lava Light Project.
Real Estate Excise Tax	143,426		143,426	Restricted due to RCW restrictions on REET funds
Transportation Benefit District	170,773		170,773	Restricted due to revenue source and nature of fund
2017 Limited Obligation Bond	381,069		381,069	Restricted for City Hall Remodel Project
Water Utility Fund	255,090		255,090	Restricted due to debt covenant and reservations for projects
<i>Totals</i>	1,154,539	0	1,154,539	

Note 2 - Budget Compliance

The city adopts annual appropriated budgets for government and proprietary 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.

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
General Fund	\$ 1,268,413	\$ 1,585,096	\$ (316,683)
Benevolent Fund	\$ 1,279	\$ 2,440	\$ (1,161)
Total 001 - General Fund	\$ 1,269,692	\$ 1,587,536	\$ (317,844)
101 - Street Fund	\$ 1,486,214	\$ 1,534,037	\$ (47,823)
104 - K9 Fund	\$ 20,000	\$ 24,989	\$ (4,989)
105 - Stadium Tax Fund	\$ 55,387	\$ 14,102	\$ 41,285
107 - Lava Light Project	\$ 146,436		\$ 146,436
108 - Real Estate Excise Tax	\$ 149,151	\$ 28,691	\$ 120,460
110 - Transportation Benefit District	\$ 162,321	\$ 3,198	\$ 159,123
301 - Capital Projects Fund	\$ 271,635	\$ 60,000	\$ 211,635
302 - 2017 Limited Obligation Bond	\$ 103,389	\$ 2,665	\$ 100,725
Water Utility Fund	\$ 4,182,496	\$ 2,094,639	\$ 2,085,628
Water/sewer Bond	\$ 550,991	\$ (1,467)	\$ 552,458
Total 401 - Water Utility Fund	\$ 4,733,487	\$ 2,095,400	\$ 2,638,087
402 - Solid Waste Fund	\$ 646,497	\$ 442,192	\$ 204,305
Sewer Utility Fund	\$ 6,484,955	\$ 2,831,361	\$ 3,653,594
Main AVE Sewer Replacement	\$ 52,859		\$ 52,859
Total 403 - Sewer Utility Fund	6,537,814.38	2,831,360.79	3,706,453.59
406 - Mineral Water Fund	\$ 29,740	\$ 6,550	\$ 23,190
Totals	\$ 15,611,763.73	\$8,630,719.75	\$ 6,981,043.98

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.

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the city is unknown at this time.

Note 4 – Deposits and Investments

Investments are reported at fair value. Deposits and investments by type at December 31, 2020 are as follows:

Type of Deposit or Investment	City's own deposits & investments		Deposits & investments held by the City as custodian for other local governments, individuals, or private organizations.	Combined
Bank Deposits		1,727,164	41,314	1,768,478
LGIP		298,177		298,177
Grant County Investments		283,849		283,849
<i>Totals</i>		2,309,190	41,314	2,350,504

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.

Investments in Grant County Investment Pool

The city is a voluntary participant in the Grant County Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The city reports its

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

investment in the pool at fair value which is the same as the value of the pool per share. The LGIP does not impose liquidity fees.

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 5 - Interfund Loans

The following table displays interfund loan activity during 2020:

Borrowing Fund	Lending Fund	Beginning Balance	New Loans	Payments	Ending Balance
General Fund	Water	\$ 23,398.74		\$ 5,270.11	\$ 18,128.63
General Fund	Sewer	\$ 23,398.74		\$ 5,270.11	\$ 18,128.63
General Fund	Solid Waste	\$ 23,398.74		\$ 5,270.11	\$ 18,128.63

Note 6 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2020.

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

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

Year	Principal	Interest	Total Debt Service
2021	353,830	261,855	615,685
2022	361,779	253,500	615,278
2023	361,519	244,806	606,325
2024	344,312	236,330	580,642
2025	303,110	228,625	531,735
2026-2030	1,260,013	933,048	2,193,062
2031-2035	1,154,938	780,019	1,934,956
2036-2040	1,021,009	622,040	1,643,049
2041-2045	887,534	493,756	1,381,290
2046-2050	1,002,012	370,922	1,372,934
2051-2055	1,034,238	238,222	1,272,460
2056-2060	1,178,875	93,585	1,272,460
<i>Totals</i>	9,263,170	4,756,706	14,019,876

Unused Lines of Credit

At fiscal year end, the city had \$ 1,179,093.00 available in unused lines of credit.

Assets Pledged as Collateral for Debt

Asset Pledged as Collateral of Debt
Two 2018 Dodge Ram 3500 Crew Cab
One 2017 Chevrolet Tahoe

Note 7 – OPEB Plans

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the city as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2020, the plan had one member, all retirees. As of December 31, 2020 the city's total OPEB liability was \$727,498, as calculated using the alternative measurement method. For the year ended December 31, 2020, the city paid \$7,292.18 in benefits.

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

Note 8 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the 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 PERS 2 & 3, LEOFF 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.

At June 30, 2020 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

Plan Type	Employer Contributions	Allocation Percentage	Plan Liability / Asset	NPL	NPA
PERS 1 UAAL	18601.08	0.00256700%	3,530,540,000	90,629	
PERS 2/3	30682.04	0.00333100%	1,278,943,000	42,602	
LEOFF 1		0.00079700%	(1,888,509,000)		(15,051)
LEOFF 2	18607.45	0.00951200%	(2,039,854,000)		(194,031)
		<i>Totals</i>		\$ 133,231	\$ (209,082)

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

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

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 9 - 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.

Assessed Value \$82,240,865

Levy Rate \$1.9764151313

Property Tax Levy for 2020 \$162,542.09

Note 10 – Risk Management

The City of Soap Lake 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 162 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 \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 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 \$400 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.

City of Soap Lake
Notes to the Financial Statements
For the year ended December 31, 2020

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 11 – Other Disclosures

Joint Venture:

The City of Soap Lake, along with 28 Grant County entities, entered into an Interlocal 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.

Subsequent Events:

Since the close of the 2020 fiscal year, the city has incurred substantial additional debt, specifically \$2,385,000 in water debt and \$3,880,000 in sewer debt. These loans have been provided by USDA and were used to pay off the bridge loan provided by Banner Bank during construction of the water/sewer projects.

**City of Soap Lake
Schedule of Liabilities
For the Year Ended December 31, 2020**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	DOE WQC-2015-SoaLak-00020	12/30/2020	9,156	-	4,621	4,535
263.51	First Gvmt Lease	12/31/2023	224,043	-	42,923	181,120
263.96	2017 LTGO Bond	10/30/2039	536,083	250,000	-	786,083
263.81	USDA Loan 97-16 - PD Dodge Durangos	10/1/2026	-	56,800	-	56,800
263.81	2018 Police Ford Interceptor	4/6/2022	9,889	-	9,889	-
251.11	General Obligation Bond Non Voted DOE 00086	6/30/2039	37,278	-	517	36,761
Total General Obligation Debt/Liabilities:			816,449	306,800	57,950	1,065,299
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	DOE EL150033	12/31/2021	6,241	-	3,098	3,143
252.11	Revenue Bond Non Voted DOE L0300028B	12/31/2024	2,593	-	707	1,886
252.11	Revenue Bond Non Voted DOE L030028A	6/1/2024	213,069	-	63,921	149,148
252.11	Revenue Bond Non Voted DOE L0100001	8/1/2021	27,836	-	13,918	13,918
252.11	Revenue Bond Non Voted USDA 91-01	4/1/2039	799,542	-	35,702	763,840
252.11	Revenue Bond Non Voted USDA 91-03	9/1/2038	109,678	-	3,770	105,908
252.11	Revenue Bond Non Voted USDA 91-05	9/1/2037	30,804	-	1,064	29,740
252.11	Revenue Bond Non Voted USDA 92-07	12/31/2054	448,549	-	14,150	434,399
252.11	Revenue Bond Non Voted USDA 10	6/30/2023	16,540	-	5,711	10,829
252.11	Revenue Bond Non Voted PC13961066	6/1/2032	1,057,748	-	81,365	976,383
252.11	Revenue Bond Non Voted - Banner Bank Interim Financing	12/31/2060	402,158	4,683,749	-	5,085,907
252.11	Revenue Bond Non Voted DOE EL180494	12/31/2038	34,400	-	2,452	31,948
259.12	Compensated Absences		43,058	19,325	-	62,383
264.30	Pension Liability		110,382	22,849	-	133,231
264.40	OPEB Liabilities		588,975	138,523	-	727,498
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,891,573	4,864,446	225,858	8,530,161
Total Liabilities:			4,708,022	5,171,246	283,808	9,595,460

City of Soap Lake
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	N/A	-	3,960,279	3,960,279	-	123
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	16-62210-034	-	4,215	4,215	-	12
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Department Of Commerce)	COVID 19 - Coronavirus Relief Fund	21.019	N/A	54,472	-	54,472	-	12
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA Military Department Emergency Management)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4309-DR-WA	314,197	-	314,197	-	12
Total Federal Awards Expended:				368,669	3,964,494	4,333,163	-	

The accompanying notes are an integral part of this schedule.

City of Soap Lake

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the Soap Lake, Grant, financial statements. The City of Soap Lake uses the BARS cash basis of accounting as prescribed by the Washington State Auditors Office.

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Soap Lake's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 – Federal De Minimis Indirect Cost Rate

The City of Soap Lake has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Federal Loans

The City of Soap Lake was approved by the USDA Rural Utilities Service to receive a loan totaling \$3,880,000 for Sewer System Improvements and \$2,385,000 for Water System Improvements. Interim loan financing was received for the construction period. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period for Water is \$2,268,931 and \$2,816,976 for Sewer.

Both the current and prior year loan balances are reported on the City's Schedule of Liabilities.



PO Box 1270 | 239 2nd Avenue SE | Soap Lake, WA 98851 | Phone: (509) 246-1211

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Soap Lake
January 1, 2020 through December 31, 2020

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2020-001	Finding caption: The City's internal controls over preparing financial statements were inadequate for ensuring accurate reporting.
Name, address, and telephone of City contact person: Ruth Wade P.O. Box 1270 Soap Lake WA 98851 (509) 246-1211	
Corrective action the auditee plans to take in response to the finding: <i>We have allotted funding to train and educate our whole staff to ensure knowledge to accurately prepare and report financial statements.</i>	
Anticipated date to complete the corrective action: by the end of 2023	

Finding ref number: 2020-002	Finding caption: The City did not have adequate internal controls for ensuring compliance with federal procurement requirements.
Name, address, and telephone of City contact person: Ruth Wade P.O. Box 1270 Soap Lake WA 98851 (509) 246-1211	
Corrective action the auditee plans to take in response to the finding: <i>We are reviewing current Procedure and Purchasing Policy for updating, to correctly reflect the Federal requirements.</i>	
Anticipated date to complete the corrective action: by the end of 2023	

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.

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