



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Ritzville

For the period January 1, 2021 through December 31, 2021

Published August 17, 2023

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

August 17, 2023

Mayor and City Council
City of Ritzville
Ritzville, Washington

Report on Financial Statements

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

We are issuing this report in order to provide information on the City's financial activities and 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 Ritzville January 1, 2021 through December 31, 2021

Mayor and City Council
City of Ritzville
Ritzville, 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 Ritzville, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated July 31, 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.

Given these limitations, during our audit we did not identify any deficiencies in internal control 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*.

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

July 31, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Ritzville January 1, 2021 through December 31, 2021

Mayor and City Council
City of Ritzville
Ritzville, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Ritzville, as of and for the year ended December 31, 2021, 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 Ritzville, and its changes in cash and investments, for the year ended December 31, 2021, 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 Ritzville, as of December 31, 2021, 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.

Matters of Emphasis

As discussed in Note 9 to the 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 9. Our opinion is not modified with respect to this matter.

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 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

July 31, 2023

FINANCIAL SECTION

City of Ritzville January 1, 2021 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2021
Notes to Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021

City of Ritzville
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 Current Expense	103 City Streets	110 Performing Arts/tourism
Beginning Cash and Investments					
308	Beginning Cash and Investments	7,246,617	1,548,917	228,130	123,298
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	1,508,160	1,248,684	98,003	105,320
320	Licenses and Permits	23,439	23,109	330	-
330	Intergovernmental Revenues	1,832,187	356,651	885,204	-
340	Charges for Goods and Services	1,930,826	72,842	-	-
350	Fines and Penalties	10,870	9,647	-	-
360	Miscellaneous Revenues	815,040	30,800	18,942	1,455
Total Revenues:		6,120,522	1,741,733	1,002,479	106,775
Expenditures					
510	General Government	272,257	272,257	-	-
520	Public Safety	521,921	520,343	-	-
530	Utilities	1,223,421	63,711	-	-
540	Transportation	200,218	1,502	198,716	-
550	Natural/Economic Environment	12,683	12,683	-	-
560	Social Services	3,434	3,434	-	-
570	Culture and Recreation	307,897	216,625	-	87,311
Total Expenditures:		2,541,831	1,090,555	198,716	87,311
Excess (Deficiency) Revenues over Expenditures:		3,578,691	651,178	803,763	19,464
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	283,407	-	135,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	12,691	4,246	-	-
Total Other Increases in Fund Resources:		296,098	4,246	135,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,212,545	12,278	852,295	52,037
591-593, 599	Debt Service	432,597	-	-	-
597	Transfers-Out	283,407	222,860	30,719	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	6,324	-	-	-
Total Other Decreases in Fund Resources:		2,934,873	235,138	883,014	52,037
Increase (Decrease) in Cash and Investments:		939,916	420,286	55,749	(32,573)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	1,930,198	662,526	148,878	90,725
50841	Committed	-	-	-	-
50851	Assigned	5,848,189	898,522	135,000	-
50891	Unassigned	408,153	408,153	-	-
Total Ending Cash and Investments		8,186,540	1,969,201	283,878	90,725

The accompanying notes are an integral part of this statement.

City of Ritzville
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		301 Capital Improvement Program	304 Law Enforcement Contributions	305 Tree Board	307 Cemetery Reserve
Beginning Cash and Investments					
308	Beginning Cash and Investments	173,827	1,931	8,482	70,300
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	56,153	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	267	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	478	1,400	-	319
Total Revenues:		56,631	1,667	-	319
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	1,578	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	3,961	-
Total Expenditures:		-	1,578	3,961	-
Excess (Deficiency) Revenues over Expenditures:		56,631	89	(3,961)	319
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	1,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	1,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	-	-
Increase (Decrease) in Cash and Investments:		56,631	89	(3,961)	1,319
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	230,459	2,020	4,521	-
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	71,619
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		230,459	2,020	4,521	71,619

The accompanying notes are an integral part of this statement.

City of Ritzville
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		401 Water	403 Sanitation	408 Sewer	500 Equipment Rental & Revolving
Beginning Cash and Investments					
308	Beginning Cash and Investments	1,353,329	397,415	2,537,871	803,117
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	165,816	-	424,249	-
340	Charges for Goods and Services	826,119	407,085	624,780	-
350	Fines and Penalties	1,223	-	-	-
360	Miscellaneous Revenues	757,976	401	1,674	1,595
Total Revenues:		1,751,134	407,486	1,050,703	1,595
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	494,471	369,995	295,244	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		494,471	369,995	295,244	-
Excess (Deficiency) Revenues over Expenditures:		1,256,663	37,491	755,459	1,595
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	5,166	-	-	142,241
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	8,445	-	-	-
Total Other Increases in Fund Resources:		13,611	-	-	142,241
Other Decreases in Fund Resources					
594-595	Capital Expenditures	37,276	-	1,240,414	18,245
591-593, 599	Debt Service	233,744	-	198,853	-
597	Transfers-Out	13,483	-	16,345	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	3,508	-	2,816	-
Total Other Decreases in Fund Resources:		288,011	-	1,458,428	18,245
Increase (Decrease) in Cash and Investments:		982,263	37,491	(702,969)	125,591
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	128,900	412,348	249,821	-
50841	Committed	-	-	-	-
50851	Assigned	2,206,700	22,558	1,585,082	928,708
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		2,335,600	434,906	1,834,903	928,708

The accompanying notes are an integral part of this statement.

City of Ritzville
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	Custodial
308	Beginning Cash and Investments	27,478	27,478
388 & 588	Net Adjustments	-	-
310-390	Additions	9,514	9,514
510-590	Deductions	10,526	10,526
	Net Increase (Decrease) in Cash and Investments:	(1,012)	(1,012)
508	Ending Cash and Investments	26,467	26,467

The accompanying notes are an integral part of this statement.

City of Ritzville
NOTES TO FINANCIAL STATEMENTS
Year Ending December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ritzville was incorporated in July of 1890 and operates under the laws of the State of Washington applicable to a second-class city with a mayor-council form of government. The City is a general-purpose government and provides general government services for law enforcement, fire protection, land use planning, parks and recreation, cemetery and transportation services associated with streets and roads. In addition, the city provides separate water, sewer, and garbage utility services.

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

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications that are similar to the ending balance classifications 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 (Current Expense) Fund 001

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

Special Revenue Funds (100's)

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

Capital Projects Funds (300's)

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 (400's)

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

Internal Service Funds (500's)

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

FIDUCIARY FUND TYPES:

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

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Cash and Investments

See note 2, 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 1 year or more. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be carried over from one year to the next based on the anniversary date of the employee, any accumulated vacation in excess of the amount earned in a two-year period will be

forfeited by the employee. The max amount of vacation is for an employee with 15 years of service or more who is entitled to 21 days of annual leave. Vacation is payable upon separation, retirement, or death for employees with more than one year of service. Sick leave may accumulate up to a maximum of 720 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid. Those employees hired before January 1, 1995 receive one half of accumulated sick leave upon resignation, retirement or death. As of December 31, 2020, there is one employee who was hired before 1/1/1995. Any employees hired after 1/1/95 do not receive sick leave payment at the time of retirement or death.

In January of 2001, the city amended its buy-out policy on sick leave for all employees. Sick leave buy-out is offered to all employees once a year to reduce the accumulated sick-leave liability of the city. A minimum of 480 hours will be maintained in the employees' sick leave bank and the employee may request a buy-out that equals one day of regular hourly pay for three days of sick leave (or .334) up to a maximum of 96 hours per year. The Clerk/Treasurer will notify all employees of how many hours from the previous year are eligible to be cashed in and the value of those hours in the first two weeks of January. The employee will tell the Clerk/Treasurer how much of the buy-out they will participate in, if any, by returning the Sick Leave Buy-out Form no later than January 20th. The buy-out if any will be included in the regular January payroll distribution. Payments of compensated absences are recognized as expenditures when paid.

F. Long-term Debt

See Note 6, Long-Term Debt.

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 ordinance or law. 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 \$1,930,198 as of December 31, 2021 as follows:

	Reserve Balance	Ending Balance	Restricted by
001	Current	\$662,526	By resolution/ordinance for Criminal Justice and Law and Justice Monies, City Beautification funds from Innovia Foundation (family trust), Local Recovery Funds, and Public Safety Tax.
103	Streets	\$148,878	By resolution/ordinance for grant funded projects.
110	Tourism	\$90,725	Hotel/Motel Tax per RCW 67.28
301	Capital Improvement Program	\$230,459	REET per RCW 35.43.40

	Reserve Balance	Ending Balance	Restricted by
304	Law and Justice Contributions	\$2,020	By resolution/ordinance for Law and Justice Contributions.
305	Tree Board	\$4,521	By resolution/ordinance for Tree Board activities.
401	Water	\$128,900	By resolution/ordinance for USDA Water Debt Reserve.
403	Sanitation	\$412,348	By resolution/ordinance for contractor's bond.
408	Sewer	\$249,821	By resolution/ordinance for DOE Debt Service fund.
	Grand Totals	\$1,930,198	

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments are reported at fair value. Deposits and investments by type at December 31, 2021 are as follows:

Type of Deposit or Investment	City's Own Deposits and Investments	Deposits and investments held by the City as a custodian for other local governments, individuals or private organizations.	Total
Bank Deposits	\$3,507,984	\$26,467	\$3,534,451
CD: Garbage Contract Bond	\$22,563	\$0	\$22,563
Money Market Accounts	\$1,866,383	\$0	\$1,866,383
Local Government Investment Pool	\$2,789,610	\$0	\$2,789,610
Total	\$8,186,540	\$26,467	\$8,213,007

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.

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 3 – BUDGET COMPLIANCE

A. Budget

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

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department		Final Appropriation Amounts	Expenditures Budget Basis	Variance
001	Current Expense	\$1,747,891	\$1,374,773	\$373,118
103	Streets	\$1,362,314	\$1,081,730	\$280,584
110	Tourism	\$140,413	\$139,348	\$1,065
301	Capital Improvement Program	\$80,000	\$0	\$80,000
304	Law Enforcement Contributions	\$1,600	\$1,578	\$22
305	Tree Board	\$5,000	\$3,961	\$1,039
307	Cemetery Reserve	\$0	\$0	\$0
401	Water	\$4,420,885	\$860,826	\$3,560,059
403	Sanitation	\$370,800	\$369,994	\$806
408	Sewer	\$2,059,497	\$2,023,673	\$35,824
500	Equipment Rental	\$131,880	\$18,245	\$113,635
	Grand Total	\$10,320,280	\$5,874,129	\$4,446,151

Budget basis differs from expenditures and other decreases in fund resources on the C4 due to certain intra-fund activity as show on the table below.

Fund/Department		C/4	Merge Transfers	Netted Transaction	Expenditures Budget Basis
001	Current Expense	\$1,325,693	\$49,081		\$1,374,774
103	Streets	\$1,081,730			\$1,081,730
110	Tourism	\$139,348			\$139,348
301	Capital Improvement Program	\$0			\$0
304	Law Enforcement Contributions	\$1,578			\$1,578
305	Tree Board	\$3,961			\$3,961
307	Cemetery Reserve	\$0			\$0
401	Water	\$782,477	\$78,750	-\$400	\$860,827
403	Sanitation	\$369,995			\$369,995
408	Sewer	\$1,753,672	\$270,000		\$2,023,672
500	Equipment Rental	\$18,245			\$18,245
Grand Total		\$5,476,699	\$397,831	-\$400	\$5,874,130

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.

The 2021 budget amendment included the Current Expense Fund due to additional approved projects for the year and funded through a transfer from the Utility Tax fund, which was also amended due to those transfers. The Law Enforcement Contributions Fund was amended as it exceeded expenditures due to the increase in revenue to purchase additional capital equipment and the Sewer Fund was amended due to a delay in a reimbursement from a grant funder.

There are eleven funds that roll up to the 001 Current Expense fund (002, 003, 004, 006, 007, 105, 106, 112, 120, 121, and 122). There are five funds that roll up to the 401 Water fund (402, 410, 419, and 424). There is one fund that rolls up to 403 fund (404) and lastly, there are two funds that roll up to the 408 Sewer fund (409 and 425).

NOTE 4 – INTERFUND TRANSACTIONS AND TRANSFERS

Transfers in and out of individual funds for the year ended December 31, 2021 are as follows:

Fund	Transfers In	Transfers Out
001 Current Expense		\$222,860.00
103 Streets	\$135,000	\$30,719.00
307 Cemetery Reserve	\$1,000.00	
401 Water	\$5,166.00	\$13,483.00
408 Sewer		\$16,345.00
500 ER&R	\$142,241.00	
Total	\$283,407.00	\$283,407.00

Interfund transfers for the Current Expense, water and sewer combined funds have been eliminated. Interfund transfers eliminated for the Current Expense were \$49,081.21, Water was \$78,750.00 and Sewer was \$270,000.

Note 5 - 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 2021 was \$2.96706546 per \$1,000 on an assessed valuation of \$117,496,561 for a total regular levy of \$346,861.

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, 2021. The debt service requirements for general obligations bonds, revenue bonds and loans, including interest, are as follows:

Year(s)	Principal	Interest	Grand Total
2022	355,036	74,699	429,735
2023	358,324	68,549	426,873
2024	361,679	62,332	424,011
2025	365,100	56,049	421,149
2026	368,590	49,696	418,286
2027-2031	1,871,595	151,474	2,023,069
2032-2036	763,245	28,597	791,842
Total	4,443,568	491,396	4,934,964

NOTE 7 - PENSION PLANS

A. State Sponsored Pension Plans

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

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

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

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

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

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

At June 30, 2021, the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$21,434	0.002878%	\$35,147
PERS 2/3	\$35,029	0.003698%	\$(368,380)
LEOFF 1	N/A	0.000890%	\$(30,488)
LEOFF 2	\$15,724	0.007888%	\$(458,168)
VFFRPF	\$600	.0031%	\$(67,875)

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

A. Risk Management

The City of Ritzville is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of November 30, 2021, there are 192 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property; including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection and Liability; including General, Automobile, and Wrongful Acts, which are included to fit member's various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per occurrence **self-insured retention (SIR) of \$100,000**. Members are responsible for a \$1,000 to \$10,000 deductible for each claim (can vary by member), while the program is responsible for the **\$100,000 SIR**. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the \$100,000 SIR, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, **with an attachment point of \$3,505,566**, which is fully funded in its annual budget.

Property insurance is subject to a per occurrence **SIR of \$100,000**. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the **\$100,000 SIR**, in addition to the deductible.

Crime insurance is subject to a per occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the \$25,000 SIR, in addition to the deductible.

Equipment Breakdown insurance is subject to a per occurrence deductible of \$2,500 (cities and special districts) and \$500 (fire districts), which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program SIR on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Cyber liability insurance is subject to a per-occurrence **SIR of \$50,000**. Members are responsible for a \$10,000 deductible for each claim, while the program is responsible for the remaining **\$40,000 SIR**.

Members contract to remain in the program for a minimum of one year and must give notice before December 1 to terminate participation the following December 1. The Interlocal Agreement is

renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending **December 1, 2021, were \$2,772,986.77.**

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

NOTE 9- COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gathering, travel, and in-person interactions.

In 2020, the city was impacted by a reduction in sales and use tax (down 6%) and hotel lodging tax (down 20%). In 2021, sales and revenue gained what was lost in 2020 plus an additional increase in tax (increased by 16%). The hotel lodging tax was close to gaining what was lost in the prior year (increased by 17%).

At the time of writing this report, sales and use tax is slow to increase in the first quarter of 2022 (down 3% from prior year's 1st quarter), while lodging hotel tax has a strong start in 2022 (up 14% from 1st quarter 2021). The city is anticipating a continuance of this yo-yo effect as the pandemic is still undetermined plus the uncertainty of inflation on the economy.

The city council and finance committee planned for the yo-yo effect in the 2022 budget by increasing the cost of supplies and reducing the estimated sales and revenue tax projection as history shows an increase one year and a decrease the next year.

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 10 - OTHER DISCLOSURES

A. FUND REPORTING

Reporting requirements only allow for one general fund and one enterprise fund that represents each of the respective proprietary activities. The city has rolled its various sub-funds into the appropriate fund classification to meet this reporting requirement.

The general fund of the city (Fund 001) consists of the following sub-funds: 002, 003, 004, 006, 007, 105, 106, 112, 120, 121, and 122; the Water Utility consists of fund numbers 401, 402, 410, 419, and 424; and the Sewer Utility consists of fund numbers 408, 409, 423 and 425.

B. LITIGATION

The City of Ritzville settled the city versus Kirby Hunt Construction Ltd/, Ohio Casualty & Surety Company and Liberty Mutual Surety litigation case in 2021. Kirby Hunt was a general contractor on a well station project commissioned by the city in 2014, which was not completed. The city claimed delayed damage and completion costs in the lawsuit. The city has accepted a settlement in the amount of seven hundred and fifty thousand dollars, which was received in June of 2021.

C. CLOSED BANK ACCOUNTS

In January of 2021, the city closed its travel STCU bank account in the amount of \$11.90. This amount was transferred to the city's main STCU 0400 account.

In May of 2021, the city closed its Wheatland Bank account in the amount of \$37,562.98. This amount was transferred to the city's STCU 0400 account. Staff receipted this amount as a revenue, and it has been corrected to be a net zero transaction. The total inter-bank transfers total \$37,574.88.

D. COMPENSATED BALANCES

The city's contracted financial advisor, who reviews the annual report each year, noted in her review the compensated balances should only include vacation time and the one employee who is eligible for sick leave pay out, based on hire date as per the personnel policies. Due to this error, the ending compensated balances of 199,663 will not be the beginning balance for 2021. The corrected beginning balance is now 99,382 due to this correction.

E. RECONCILIATION

The Clerk-Treasurer has gone through the reconciliation process multiple times and is unable to have the deposits and withdrawals match revenue and expenditures in an acceptable range as shown on Schedule 6. In 2021, the city brought on two new EFT vendors, Square and Invoice Cloud. Square is used for the Golf Course and Invoice Cloud is an online bill pay service for utility payments. The Invoice Cloud system uses three different type of EFT vendors for Visa/MC/DSC, EFT, and Online Bank Direct payments. These vendors are depositing to the city's bank accounts daily and matching the deposits

from their system to the city's bank account takes a whole day of uninterrupted time as the Clerk-Treasurer worked on a weekend and tracked the time.

Also in 2021, the city's issues with the Vision financial system greatly increased and the Clerk-Treasurer met with the company's new owner to discuss those issues and presented those challenges to council. The areas that have greatly impacted reconciling include decrease in customer support, Neptune meter software not connecting with Vision system correctly (incorrect meter reads and utility bills), Invoice Cloud not syncing with Vision correctly (causing incorrect bills, adjustments, and credits in the system), and accounts automatically being deactivated for property owner with multiple accounts.

While the Vision system increased the need for multiple corrections in the system, the city also experienced a Deputy Clerk Treasurer I (Utility Clerk) employee whose work performance declined, and multiple mistakes were made in the financial system. The concerns were not balancing daily deposits correctly, attention to detail, and not following utility software protocol on how to set up and adjust accounts such as NSF's and not completing them in the same year. There are no concerns of mismanagement of money. This employee was let go in 2022.

Moving forward, the city has switched to the Springbrook Bias financial system and implementation will be complete by November 2022. One of the highlights of the new system is the capability to complete daily deposits within the system. The customer support is greatly enhanced, and the system's functionality is exceptional for doing financial reports, budgeting, and the annual report.

The Clerk-Treasurer is in the process of setting up two separate checking accounts that are specific for the EFT vendors (Square and Express Bill Pay, which replaces Invoice Cloud). This was recommended by the Springbrook trainer and will help with reconciling those transactions easier.

From 2021 to 2022, the city has also experienced growth and the Clerk-Treasurer's time has increased 25% for tasks such as land use, building and zoning. The Clerk department is currently staff with one full time ("Utility Clerk") and one part time ("Projects") Deputy-Clerk Treasurer I and one full time Deputy Clerk Treasurer II ("Accounting Clerk"). The part time clerk position has had six different employees in the last two years due to it being a part time position. The last part time clerk went back to her full-time job as she works for the school district. In the 2023 budget, the Clerk-Treasurer is requesting to increase the budget from a part time clerk to a full-time clerk. One of the main reasons is to provide more time for the Clerk-Treasurer to focus on financial tasks such as reconciling. The council is currently in support of this request but it will not be final until the final budget is passed in December 2022.

City of Ritzville
Schedule of Liabilities
For the Year Ended December 31, 2021

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.86	2008 DOE Loan	5/30/2027	34,869	-	5,146	29,723
263.86	2012 DOE Loan	9/30/2027	1,898,343	-	155,855	1,742,488
263.86	DWSRF Loan#031	10/1/2035	1,158,573	-	77,238	1,081,335
263.86	DWSRF Loan#32	10/1/2035	1,703,595	-	113,573	1,590,022
259.12	Compensated Absences		99,382	28,800	25,123	103,059
264.30	Pension Liabilities		146,159	-	111,012	35,147
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,040,921	28,800	487,947	4,581,774
Total Liabilities:			5,040,921	28,800	487,947	4,581,774

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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.

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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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