



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Mabton

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

Published May 15, 2025

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

May 15, 2025

Mayor and City Council
City of Mabton
Mabton, Washington

Report on Financial Statements

Please find attached our report on the City of Mabton'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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TABLE OF CONTENTS

Schedule of Audit Findings and Responses.....	4
Summary Schedule of Prior Audit Findings	8
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>	9
Independent Auditor's Report on the Financial Statements.....	12
Financial Section.....	16
About the State Auditor's Office.....	33

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

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

2021-001 The City did not have adequate internal controls ensuring accurate reporting of its financial statements and compliance with state law.

Background

State and federal agencies, the City Council, and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance its financial reporting is reliable and the financial statements and notes to financial statements are accurate.

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

The City Council annually approves a budget determining the City's legal spending limits. Under state law (RCW 35A.33.120), spending should not exceed this level without a Council-approved budget amendment. Moreover, the Council cannot authorize spendings that exceeds available funds. When expenditures in a fund exceed the available resources, the City is effectively borrowing from other funds without formally establishing an interfund loan. The Council must approve interfund loans by resolution or ordinance that includes a payment plan and set a reasonable interest rate to pay to the lending fund.

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses as a finding.

Description of Condition

We found the following deficiencies in internal controls that represent a material weakness. The City did not have processes in place to:

- Perform a secondary review of the financial reports to ensure they were free from material errors, agreed to underlying accounting records and complied with BARS Manual reporting requirements
- Research and properly classify ending cash and investment balances
- Monitor financial activity, or identify the need to both implement and account for interfund loans as required

We reported this issue as a finding in the prior three audits.

Cause of Condition

The City has experienced turnover in multiple positions and those responsible for financial oversight lacked the necessary experience and training in financial reporting.

Additionally, the City Council authorized paying expenses in the street and sewer funds that were more than the authorized budget and available resources without verifying if there were adequate funds.

Effect of Condition

Inaccurate financial reports limit access to financial information that City officials, the public, state and federal agencies, and other interested parties use.

As a result of the internal control weaknesses, the City:

- Reported the Drinking Water State Revolving Fund loan and the Department of Ecology loan on the Schedule of Liabilities twice, overstating total liabilities by \$3,883,099
- Misclassified \$316,456 of restricted funds and \$434,902 of unassigned funds as assigned in the general fund

The City subsequently corrected these errors.

Also, the City overspent approved budgets and available resources for two funds, reporting negative cash and investment balances totaling \$297,339 in the street fund and \$204,869 in the sewer fund. These funds operated using restricted funds since the general fund did not have an unassigned fund balance to cover these negative balances. The City's noncompliance with state laws had a direct and material effect on its 2021 financial statements.

In addition, we identified other less significant errors on the financial statements, notes and schedules.

Recommendation

We recommend the City's elected officials and management establish and follow effective internal controls over preparing financial statements and schedules. This should include performing a secondary review of the financial statements and researching reporting requirements to ensure cash and investments are properly classified.

We also recommend the City monitor its financial activity to ensure it complies with state law and all funds have the available budget and resources to pay for expenditures. When necessary, we further recommend the City establish an interfund loan that the Council approves.

City's Response

The city agrees with the SAO findings and recommendations. The new staff is working diligently to reconcile all financial statements to provide a clear standing of the cities finances. All expenditures will be reviewed and ensured that it has been included in the budget. It is the City Treasurers goal is to complete quarterly financial reports for council.

Auditor's Remarks

We appreciate the City's commitment to resolving these issues. We will follow up to the finding during our next audit.

Applicable Laws and Regulations

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.

The *Budgeting Accounting and Reporting System* (BARS) Manual 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objective.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.9.1, Loans, sets the requirements for interfund loans and repayments.

RCW 35A.33.120 – Funds – Limitations on expenditures, restricts the Council from authorizing any claim on expenditures in excess of total budgeted amounts for any individual fund



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

Audit Period: January 1, 2020 through December 2020	Report Ref. No.: 102921	Finding Ref. No.: 2020-001				
Finding Caption: The City's internal controls over preparing financial statements and monitoring financial activity were inadequate for ensuring accurate reporting and compliance with state law.						
Background: The City did not implement or account for interfund loans for the Street and Sewer funds. This resulted in the City incorrectly reporting negative fund balances for these funds in the amount of \$155,431 and \$225,671, respectively. These errors remain uncorrected, as the City has not yet properly approved the necessary interfund loans. The City's General fund has unassigned cash and investments of only \$308,912, which is not enough to support the negative fund balances in the Street and Sewer funds. Therefore, the City is effectively using restricted, committed or assigned assets to support these funds. We recommend the City monitor its financial activity to ensure that all funds have the available resources to pay for expenditures and, when necessary, establish an interfund loan that the Council approves.						
Status of Corrective Action: (check one) <table><tr><td>☐ Fully Corrected</td><td>☐ Partially Corrected</td><td>☒ Not Corrected</td><td>☐ Finding is considered no longer valid</td></tr></table>			☐ Fully Corrected	☐ Partially Corrected	☒ Not Corrected	☐ Finding is considered no longer valid
☐ Fully Corrected	☐ Partially Corrected	☒ Not Corrected	☐ Finding is considered no longer valid			
Corrective Action Taken: <i>We are currently working on reconciliations and reassigning expenditures where appropriate.</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 Mabton January 1, 2021 through December 31, 2021

Mayor and City Council
City of Mabton
Mabton, 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 Mabton, 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 May 15, 2025.

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 2021-001, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001. We also noted certain matters that we have reported to the management of the City in a separate special investigation report dated May 15, 2025.

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

May 15, 2025

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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

Mayor and City Council
City of Mabton
Mabton, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Mabton, 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 Mabton, 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 Mabton, 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.

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 May 15, 2025 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 written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

May 15, 2025

FINANCIAL SECTION

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

		Total for All Funds (Memo Only)	001 General Fund	102 Cemetery	103 City Streets
Beginning Cash and Investments					
308	Beginning Cash and Investments	793,424	308,912	24,758	(155,431)
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	815,171	735,020	-	39,560
320	Licenses and Permits	124,359	124,359	-	-
330	Intergovernmental Revenues	762,935	510,442	679	229,287
340	Charges for Goods and Services	1,716,247	20,468	72,641	-
350	Fines and Penalties	3,292	225	-	-
360	Miscellaneous Revenues	28,301	27,607	-	-
Total Revenues:		3,450,305	1,418,121	73,320	268,847
Expenditures					
510	General Government	238,656	238,656	-	-
520	Public Safety	442,294	429,073	-	-
530	Utilities	1,367,061	-	81,101	-
540	Transportation	83,386	-	-	83,386
550	Natural/Economic Environment	45,226	45,226	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	89,464	89,464	-	-
Total Expenditures:		2,266,087	802,419	81,101	83,386
Excess (Deficiency) Revenues over Expenditures:		1,184,218	615,702	(7,781)	185,461
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	128,000	-	40,000	35,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	36,925	11,705	-	5,220
Total Other Increases in Fund Resources:		164,925	11,705	40,000	40,220
Other Decreases in Fund Resources					
594-595	Capital Expenditures	428,477	12,426	7,762	367,591
591-593, 599	Debt Service	381,638	-	400	-
597	Transfers-Out	128,000	120,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	20,000	-	20,000	-
Total Other Decreases in Fund Resources:		958,115	132,426	28,162	367,591
Increase (Decrease) in Cash and Investments:		391,028	494,981	4,057	(141,910)
Ending Cash and Investments					
50821	Nonspendable	64,611	-	-	-
50831	Restricted	717,157	368,353	-	-
50841	Committed	28,815	-	28,815	-
50851	Assigned	440,539	-	-	-
50891	Unassigned	(67,306)	434,902	-	(297,339)
Total Ending Cash and Investments		1,183,816	803,255	28,815	(297,339)

The accompanying notes are an integral part of this statement.

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

		113 Capital Improvements Fund	115 Ems Fund	304 2005 Cdbg Well Project	401 Water
Beginning Cash and Investments					
308	Beginning Cash and Investments	61,748	241,371	77,428	364,241
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	15,937	24,654	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	1,260	-	10,555
340	Charges for Goods and Services	-	-	-	746,784
350	Fines and Penalties	-	-	-	1,581
360	Miscellaneous Revenues	5	244	-	41
Total Revenues:		15,942	26,158	-	758,961
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	13,221	-	-
530	Utilities	-	-	-	584,087
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	13,221	-	584,087
Excess (Deficiency) Revenues over Expenditures:		15,942	12,937	-	174,874
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	-	-	-	39,698
591-593, 599	Debt Service	-	-	-	216,401
597	Transfers-Out	-	-	-	5,000
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	-	261,099
Increase (Decrease) in Cash and Investments:		15,942	12,937	-	(86,225)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	77,690	254,308	-	16,806
50841	Committed	-	-	-	-
50851	Assigned	-	-	77,428	261,211
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		77,690	254,308	77,428	278,017

The accompanying notes are an integral part of this statement.

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

		402 Sewer	404 Garbage	501 Equipment Replacement Fund	701 Cemetery Perpetual Care
Beginning Cash and Investments					
308	Beginning Cash and Investments	(225,671)	13,861	38,000	44,207
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	10,712	-	-	-
340	Charges for Goods and Services	606,186	270,168	-	-
350	Fines and Penalties	1,486	-	-	-
360	Miscellaneous Revenues	-	-	-	404
Total Revenues:		618,384	270,168	-	404
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	444,744	257,129	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		444,744	257,129	-	-
Excess (Deficiency) Revenues over Expenditures:		173,640	13,039	-	404
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	15,000	-	38,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	20,000
Total Other Increases in Fund Resources:		15,000	-	38,000	20,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	1,000	-
591-593, 599	Debt Service	164,837	-	-	-
597	Transfers-Out	3,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		167,837	-	1,000	-
Increase (Decrease) in Cash and Investments:		20,803	13,039	37,000	20,404
Ending Cash and Investments					
50821	Nonspendable	-	-	-	64,611
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	-	26,900	75,000	-
50891	Unassigned	(204,869)	-	-	-
Total Ending Cash and Investments		(204,869)	26,900	75,000	64,611

The accompanying notes are an integral part of this statement.

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

		Custodial
308	Beginning Cash and Investments	<u>7</u>
388 & 588	Net Adjustments	-
310-390	Additions	20,776
510-590	Deductions	<u>20,675</u>
	Net Increase (Decrease) in Cash and Investments:	101
508	Ending Cash and Investments	108

The accompanying notes are an integral part of this statement.

City of Mabton
Notes to Financial Statements
For the year ended December 31, 2021

Note 1 - Summary of Significant Accounting Policies

The City of Mabton was incorporated on November 8, 1905 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 water, sanitary sewer, garbage, police, fire protection, street improvements, parks, cemetery, and general administrative services.

The City of Mabton 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.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

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

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Pension (and Other Employee Benefit) Trust Funds

These funds are used to report fiduciary activities for pension and OPEB plans administered through trust.

Investment Trust Funds

These funds are used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in trust.

Private-Purpose Trust Funds

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

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law, the City of Mabton 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 5 - 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 two years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave for employees covered by a collective bargaining agreement may be accumulated up to 240 hours per year, and is payable upon separation or retirement. Sick leave for employees covered by a collective bargaining agreement may be accumulated up to 960 hours, and is payable upon resignation after 10 years of continuous service, death or retirement at a rate of 33.33% of the accrued time. Administrative staff not covered by the collective bargaining unit earn paid time off to cover Vacation, Personal, and Sick Leave in the amount of 20 days per year. Any unused time carries over each year and is payable upon the employee's separation from employment. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 3 – Long Term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

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

Restrictions and commitments of Ending Cash and Investments consist of:

- Fund 001 – General Fund/Criminal Justice & Public Safety:
The City receives certain sales tax revenues and state shared revenues that are restricted for Public Safety and Criminal Justice expenditures by the State of Washington. The restricted portion of the General Fund ending fund balance for 2020 is \$40,151.32 for Criminal Justice and Public Safety expenditures.
- Fund 102 – Cemetery Fund:
Revenues collected from the sale of cemetery plots and burial fees are committed by ordinance of the City Council to support the operation of the cemetery. The ending fund balance for the Cemetery fund for 2020 is \$24,758.27, which is classified as committed.
- Fund 113 – Capital Improvements Fund/ Real Estate Excise Tax:
The City receives a 0.25% tax of the sale of real estate within the City that is restricted by the State of Washington for financing capital projects specified in the Capital Facilities portion of the City's Comprehensive Plan. The ending fund balance for 2020 is \$61,747.76, which is classified as restricted.
- Fund 115 – Emergency Medical Services Fund:
The City collects the voter-approved EMS Property Tax Levy, that is restricted for the use of Emergency Medical Services. The ending fund balance for 2020 is \$241,371.23, which is classified as restricted.
- Fund 401 – Water Fund:
The City has received various loan and grant funding from the United States Department of Agriculture for improvements in the water system. USDA requires that the City put aside reserves for debt service and short-lived assets. The restricted portion of the Water Fund ending fund balance for 2020 is \$12,435.00, which meets the USDA's reserve requirements.

Note 2 – Budget Compliance

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

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund 001	\$997,290.00	\$934,845.34	\$62,444.66
Cemetery Fund 102	\$138,030.00	\$109,263.17	\$28,766.83
Street Fund 103	\$499,350.00	\$450,975.92	\$48,374.08
Capital Improvements Fund 113	\$0.00	\$0.00	\$0.00
EMS Fund 115	\$15,500.00	\$13,220.80	\$2,279.20
2005 CDBG Well Fund	\$0.00	\$0.00	\$0.00
Water Fund 401	\$1,343,084.00	\$713,095.79	\$629,988.21
Sewer Fund 402	\$601,000.00	\$612,581.82	-\$11,581.82
Garbage Fund 404	\$271,560.00	\$234,143.43	\$37,416.57
Equipment Replacement Fund 501	\$0.00	\$0.00	\$0.00
Cemetery Perpetual Care Fund 701	\$0.00	\$0.00	\$0.00
Grand Totals	\$3,865,814.00	\$3,068,126.27	\$797,687.73

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

Note 3 – Long Term Debt

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

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

	Principal	Interest	Total
2021	\$ 287,302.76	\$ 91,509.44	\$ 378,812.20
2022	\$ 289,735.17	\$ 86,771.79	\$ 376,506.96
2023	\$ 292,219.63	\$ 81,982.08	\$ 374,201.71
2024	\$ 294,709.11	\$ 77,187.37	\$ 371,896.48
2025	\$ 297,348.04	\$ 72,243.19	\$ 369,591.23
2026-2030	\$ 1,527,555.64	\$ 285,821.86	\$ 1,813,377.50
2031-2035	\$ 1,515,524.85	\$ 154,551.56	\$ 1,670,076.41
2036-2040	\$ 418,330.33	\$ 63,931.27	\$ 482,261.60
2041-2045	\$ 163,033.19	\$ 46,760.59	\$ 209,793.78
2046-2050	\$ 128,992.46	\$ 32,887.54	\$ 161,880.00
2051-2055	\$ 144,313.06	\$ 17,566.94	\$ 161,880.00
2056-2060	\$ 79,418.67	\$ 2,623.33	\$ 90,136.00
2061-2065	\$ -	\$ -	\$ -
Totals	\$ 5,438,482.91	\$ 1,013,836.96	\$ 6,460,413.87

Unused Lines of Credit

At fiscal year end, the City had \$20,000 available in unused lines of credit.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2020:

Borrowing Fund	Lending Fund	Balance 1/1/2020	New Loans	Repayments	Balance 12/31/2020
Cemetery Fund 102	Perpetual Care Fund 701	\$ 60,000.00	\$ -	\$ 20,000.00	\$ 40,000.00

Note 5 – Deposits and Investments

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

Type of Deposit or Investment

Type of Deposit or Investment	City's Own Deposits and Investments
Bank Deposit	\$ 757,338.57
Local Government Investment Pool	\$ 83,859.36
Total	\$ 841,197.93

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 6 – Pension Plans

Substantially all City of Mabton 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, PERS 3, and LEOFF 2.

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

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

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

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

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

At June 30, 2020 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$17,174.00	0.002370%	\$83,674.00
PERS 2/3	\$28,312.00	0.003073%	\$39,302.00
LEOFF 2	\$ 7,177.06	0.003669%	(\$74,842.00)
VFFRPF	\$ 90.00	0.05%	\$16,327.41

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 7 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City's regular levy for the year 2020 was \$2.76217116 per \$1,000 on an assessed valuation of \$63,261,391 for a total regular levy of \$174,738.79.

Note 8 – Risk Management

The City of Mabton 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.

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 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 a 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 include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel, and non-essential activities.

Additionally, the Governor put a prohibition on charging late penalties or disconnecting services for many essential utilities, including water. Due to this prohibition, the City has been unable to enforce payment of outstanding utility accounts. This has had an impact in the revenue of the City's Water, Sewer, and Garbage funds, which all use penalty fees and disconnection of water services as a means for collections. As of December 31, 2020, the City's outstanding accounts receivables have increased by 45% over the outstanding amounts prior to the pandemic.

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

Corrections of Material Errors

The City's Cemetery Perpetual Care Fund has been incorrectly accounted for as a Fiduciary Fund instead of a Permanent Fund. The correction of this error required an expenditure in account 5881000 from the previous fund 601, and a revenue into new fund 701 in account 3881000 as a prior period adjustment.

Significant Commitments or Obligations

The City has active projects as of December 31, 2020. The projects include the following:

1. Main Street improvement between Washington Street and South Street. This project is in the design process and doesn't anticipate construction until 2022. This project is funded through STP and TIB.
2. Washington Street Overlay from 1st Avenue to 6th Avenue. This project is expected to start construction in the spring of 2021. This project is funded through TIB.
3. Water System Plan. This project is underway and is expected to be complete by summer of 2021. This project is funded by the City's Water Fund.
4. Well #7 Drilling. This project is in design and is expected to be completed by fall of 2021. This project is being funded by CDBG and USDA-RD.

At year-end the City's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Main Street Improvement	\$151,616.49	\$2,152,783.51
Washington Street Overlay	\$24,261.21	\$264,578.79
Water System Plan	\$1,511.39	\$58,188.61
Well #7 Drilling	\$0.00	\$1,748,195.00

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	Ricoh Copier	9/30/2025	17,798	-	3,708	14,090
263.51	Sharp Video Conferencing System	9/30/2025	9,655	-	2,088	7,567
263.51	Xerox Copier	12/31/2022	4,043	-	1,572	2,471
Total General Obligation Debt/Liabilities:			31,496	-	7,368	24,128
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		15,467	-	-	15,467
263.82	USDA RD \$92,000	8/24/2056	85,669	-	1,582	84,087
263.82	USDA RD \$760,000	8/8/2058	732,972	-	12,494	720,478
263.84	DWSRF DM15-952-044	10/1/2034	1,199,381	-	85,670	1,113,711
263.84	DWSRF DM13-952-181	10/1/2037	1,088,592	-	64,034	1,024,558
263.84	Ecology SRF L1300024	3/31/2036	1,806,336	-	99,655	1,706,681
263.84	Ecology EL170130	1/1/2041	39,740	-	1,591	38,149
263.88	PWTF Loan PC13-961-027	6/1/2042	525,082	-	23,867	501,215
264.30	Pension Liabilities		122,976	-	2,036	120,940
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,616,215	-	290,929	5,325,286
Total Liabilities:			5,647,711	-	298,297	5,349,414

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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(564) 999-0950
- Toll-free Citizen Hotline:
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