



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Sunnyside

Yakima County

For the period January 1, 2013 through December 31, 2013

Published September 30, 2015

Report No. 1015291





Washington State Auditor's Office

September 30, 2015

Council
City of Sunnyside
Sunnyside, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

**City of Sunnyside
Yakima County
January 1, 2013 through December 31, 2013**

The results of our audit of the City of Sunnyside are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Sunnyside Yakima County January 1, 2013 through December 31, 2013

2013-001 The City did not have adequate internal controls over accounting and financial statement preparation to ensure accurate reporting.

Background

City management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability and timeliness of financial reporting.

State law (RCW 43.09.230) requires local governments to submit annual financial reports to the State Auditor's Office within 150 days of the end of the fiscal year. As part of the annual financial report, all local governments in Washington that spend federal funds are required to prepare a Schedule of Expenditures of Federal Awards (SEFA). U.S. Office of Management and Budget (OMB) Circular A-133 requires grantees to identify, in its accounts, all Federal program awards received and expended and to report all Federal awards expended on the SEFA each fiscal year.

Our audit identified deficiencies in internal controls that adversely affected the City's ability to produce reliable financial statements and required schedules. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The City did not take appropriate action to submit accurate and timely annual reports. The City submitted draft financial statements in January of 2015. These statements did not include a Schedule of Expenditure of Federal Awards (SEFA). We performed an audit of these financial statements and were unable to conclude that the financial statements were materially correct. We provided the City with an opportunity to provide our office with revised financial statements. The corrected financial statements for 2013 were submitted to our office in May of 2015. This was one year after the state reporting deadline, which resulted in the

City missing its federal deadline of September 30, 2014. The SEFA reported nearly \$1.7 million in federal expenditures, requiring a federal single audit. Although the City was able to provide support for 2013 financial reports, the City did not meet the required federal single audit deadline.

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

- Due to staff turnover, the City did not have the necessary information to support the original amounts on the financial statements and did not have enough information to prepare the SEFA timely.
- The City did not perform bank reconciliations to ensure amounts recorded in the general ledger reconciled with transactions processed through the City's bank accounts. Management did not monitor to ensure bank reconciliations were being performed.
- Individuals responsible for preparing the financial statements lacked adequate training and understanding of the *Budgeting, Accounting and Reporting System* (BARS) manual and financial reporting requirements for cash basis entities.
- The City did not have an effective review of the original financial statements to ensure financial transactions were presented properly and complete.

Cause of Condition

The City experienced significant turnover in management and financial services. Between 2011 through 2013 five individuals held the City Manager position and three individuals held the Finance Director position. With this turnover, the City was unable to effectively monitor and report on the financial activity of the City.

Effect of Condition

As a result of these control deficiencies and errors identified, the City did not meet the reporting deadline and the audit was delayed. In addition, the City did not meet the federal audit deadline for 2013. As the City was able to provide adequate support for the corrected financial statements, we were able to conclude that the financial statements were materially correct.

Recommendation

We recommend the City establish internal controls to ensure accurate financial statement and SEFA reporting by ensuring:

- Finance staff who prepare financial statements receive necessary training to ensure that financial reporting is accurate and complete under the BARS requirements and that a knowledgeable person perform an independent review of these statements.
- Bank reconciliations are performed monthly and are properly supported and reviewed by an independent person.
- All transactions and journal entries are properly supported, reviewed and reported accurately.
- Financial reports are submitted timely to our office as required by State law.

City's Response

The City of Sunnyside acknowledges the auditor's comments, and understands the concerns expressed. In 2014, the City added additional staff to the finance department to assist with timely preparation of financial documents. Finance staff has attended BARS/Annual Report training and will continue to seek opportunities to continue training as available. The City is actively working toward an independent review of the financial statements by contracting with an outside third party vendor or seeking a review from another entity with knowledge of correct financial reporting. It is to be noted the 2014 Annual Report was submitted on time. The City has been proactive since 2014 to correct the deficiencies found in the 2011, 2012 and 2013 internal controls for properly reporting financial transactions.

The City of Sunnyside is actively preparing bank reconciliations on a monthly basis in 2015 with proper support and documentation which is reviewed by the City Manager and Director of Finance. The City is actively working toward a new procedure for the creation, support and review of journal entries. In the process of transition to BIAS software from Eden software in 2013, the number of journal entries has been reduced. All journal entries are created by the Financial Analyst and reviewed by the Director of Finance. In the absence the Financial Analyst or Director of Finance a review will be completed and signed off by the City Manager.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and acknowledge its commitments to improvements. We will review the status of this issue during our fiscal year 2015 audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 Local government accounting – Annual reports – Comparative statistics, states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E, Section 500, states in part:

(a) General. The audit shall be conducted in accordance with GAGAS . . .

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Budgeting, Accounting and Reporting System (BARS) Manual; Accounting; Accounting Principles and Internal Control; Internal Control states in part:

Purpose and Definition of Internal Controls

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government’s performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting . . .

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules . . .

Controls over Financial Reporting:

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the

government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.

- Correctly accounting for all financial events – Controls should ensure that:
 - Only valid transactions are recorded and reported.
 - All transactions occurred during the period are recorded and reported.
 - Transactions are recorded and reported at properly valued and calculated amounts.
 - Recorded and reported transactions accurately reflect legal rights and obligations.
 - Transactions are recorded and reported in the account and fund to which they apply.
 - Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

3.1.3.160 Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

STATUS OF PRIOR AUDIT FINDINGS

City of Sunnyside Yakima County January 1, 2013 through December 31, 2013

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Sunnyside. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: January 1, 2011 through December 31, 2012	Report Reference No: 1015263	Finding Reference No: 2012-001
Finding Caption: The City did not have adequate internal controls over accounting and financial statement preparation to ensure accurate reporting.		
Description of Condition: The City did not take appropriate action to submit accurate and timely annual reports. The City prepared financial statements for 2011 and 2012. We performed an audit of these financial statements and were unable to conclude that the financial statements were materially correct. We provided the City with an opportunity to provide our office with revised financial statements. Although the City submitted corrected statements in January 2015, management was again unable to provide adequate documentation to support the amounts presented on the financial statements. We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness: <ul style="list-style-type: none"> • Management and staff were not able to demonstrate how the amounts on the financial statements agreed to accounting records. There was significant turnover in the Finance Director position. The former Finance Directors that worked on these financial statements did not retain documentation to support the amounts reported. • The City did not perform bank reconciliations to ensure amounts recorded in the general ledger reconciled with transactions processed through the City's bank accounts. Management did not monitor to ensure bank reconciliations were being performed. • Individuals responsible for preparing the financial statements lacked adequate training and understanding of the <i>Budgeting, Accounting and Reporting System</i> (BARS) manual and financial reporting requirements for cash basis entities. 		

The City did not have an effective review of the financial statements to ensure financial transactions were presented properly and complete.

Status of Corrective Action: (check one)

Fully Corrected Partially Corrected No Corrective Action Taken Finding is considered no longer valid

Corrective Action Taken:

The City has taken steps to address the prior audit condition; however, deficiencies still existed for the 2013 audit period.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Sunnyside
Yakima County
January 1, 2013 through December 31, 2013**

Council
City of Sunnyside
Sunnyside, 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 Sunnyside, Yakima County, Washington, as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 28, 2015.

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 Washington State statutes 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is 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 blue ink that reads "Jan M. Jutte". The signature is written in a cursive, flowing style.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**City of Sunnyside
Yakima County
January 1, 2013 through December 31, 2013**

Council
City of Sunnyside
Sunnyside, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Sunnyside, Yakima County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Sunnyside Yakima County January 1, 2013 through December 31, 2013

Council
City of Sunnyside
Sunnyside, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Sunnyside, Yakima County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 24.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Sunnyside has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Sunnyside, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Sunnyside, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

FINANCIAL SECTION

**City of Sunnyside
Yakima County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

City of Sunnyside
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	001 GENERAL FUND	101 STREET
Beginning Cash and Investments				
30810	Reserved	5,643,625	-	3,387
30880	Unreserved	5,114,327	517,257	-
388 & 588	Prior Period Adjustments, Net	-	52,972	-
Operating Revenues				
310	Taxes	8,953,232	6,932,645	-
320	Licenses & Permits	266,835	264,835	2,000
330	Intergovernmental Revenues	1,433,340	643,219	738,913
340	Charges for Goods and Services	8,158,245	1,107,098	-
350	Fines & Penalties	401,658	389,612	-
360	Miscellaneous Revenues	552,444	42,204	-
Total Operating Revenues:		<u>19,765,753</u>	<u>9,379,612</u>	<u>740,913</u>
Operating Expenditures				
510	General Government	2,041,679	1,596,820	-
520	Public Safety	7,367,000	5,774,823	-
530	Utilities	3,946,211	886	-
540	Transportation	1,358,744	64,117	920,874
550	Natural and Economic Environment	153,613	153,613	-
560	Social Services	16,513	16,513	-
570	Culture And Recreation	727,133	641,195	-
Total Operating Expenditures:		<u>15,610,894</u>	<u>8,247,968</u>	<u>920,874</u>
Net Operating Increase (Decrease):		<u>4,154,860</u>	<u>1,131,645</u>	<u>(179,961)</u>
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	510,681	506,540	(567)
391-393	Debt Proceeds	1,128,649	-	-
397	Transfers-In	1,273,994	206,441	734,953
Total Nonoperating Revenues:		<u>2,913,324</u>	<u>712,981</u>	<u>734,386</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	600,055	596,194	1,320
591-593	Debt Service	2,442,475	18,008	-
594-595	Capital Expenditures	5,024,712	141,661	517,325
597	Transfers-Out	1,099,553	969,814	-
Total Nonoperating Expenditures:		<u>9,166,796</u>	<u>1,725,678</u>	<u>518,645</u>
Net Increase (Decrease) in Cash and Investments:		<u>(2,098,610)</u>	<u>118,949</u>	<u>35,780</u>
Ending Cash and Investments				
50810	Reserved	2,550,514	-	-
50880	Unreserved	6,108,826	689,176	39,167

The accompanying notes are an integral part of this statement.

120 INVESTIGATIVE FUND	130 POLICE DEPT CRIME PREVENTION	140 PUBLIC SAFETY TAX	160 TOURISM EXPANSION	201 GENERAL OBLIGATION BONDS	303 COMMUNITY DEVELOPMENT BLOCK GRANT
95,101	107,133	16,336	146,473	-	72,213
-	-	-	-	-	-
-	-	-	-	-	(17,364)
-	-	365,812	98,995	678,300	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,409	9,636	-	-	-	-
30,519	6,586	10	133	-	-
32,928	16,222	365,822	99,128	678,300	-
-	-	-	-	-	-
49,359	33,818	279,132	-	-	-
-	-	23,600	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	85,937	-	-
49,359	33,818	302,732	85,937	-	-
(16,431)	(17,596)	63,090	13,191	678,300	-
-	-	-	-	-	-
-	-	-	-	-	2,498
-	-	-	-	234,861	-
-	-	-	-	234,861	2,498
-	-	-	-	-	-
-	-	-	-	852,500	-
-	-	-	-	-	-
-	-	-	32,000	-	-
-	-	-	32,000	852,500	-
(16,431)	(17,596)	63,090	(18,809)	60,661	2,498
-	-	-	-	60,661	57,348
78,670	89,537	79,426	127,663	-	-

The accompanying notes are an integral part of this statement.

304 LOCAL CAPITAL IMPROV(EX TAX)	305 LOCAL CAPITAL IMPROVEMENT (REET-2)	322 FIRE EQUIPMENT RESERVE FUND	323 2011 FIRE STATION PROJEC T	410 WATER	420 SEWER
274,588	64,691	45,173	4,776,789	-	-
-	-	-	-	1,749,434	2,438,939
-	-	-	-	(14,243)	(17,804)
59,035	59,035	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,118,249	2,847,015
-	-	-	-	-	-
20	49	54	2,510	2,003	1,314
59,056	59,084	54	2,510	2,120,252	2,848,328
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,284,123	1,475,547
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,284,123	1,475,547
59,056	59,084	54	2,510	836,129	1,372,781
-	-	-	-	4,708	-
-	-	-	-	1,126,150	-
-	-	-	-	-	70,200
-	-	-	-	1,130,858	70,200
-	-	-	-	2,541	-
-	-	-	-	413,065	1,154,056
91,770	4,750	-	2,633,895	1,485,037	30,689
-	-	-	-	70,200	27,539
91,770	4,750	-	2,633,895	1,970,843	1,212,285
(32,714)	54,334	54	(2,631,385)	(3,856)	230,697
241,874	-	45,227	2,145,404	-	-
-	119,026	-	-	1,731,335	2,651,831

The accompanying notes are an integral part of this statement.

430 GARBAGE	440 AMBULANCE/EM S	450 STORMWATER	501 EQUIPMENT RENTAL	503 PUBLIC WORKS SERVICE CENTER	504 INFORMATION TECHNOLOGY
-	-	-	-	37,024	4,717
67,149	292,697	48,851	-	-	-
(1,780)	(1,780)	-	-	-	-
-	759,410	-	-	-	-
-	-	-	-	-	-
-	1,208	50,000	-	-	-
1,012,260	466,979	147,228	-	19,274	440,142
-	-	-	-	-	-
95	52,256	-	414,691	-	0
<u>1,012,356</u>	<u>1,279,853</u>	<u>197,228</u>	<u>414,691</u>	<u>19,274</u>	<u>440,143</u>
-	-	-	-	-	444,859
-	1,229,868	-	-	-	-
1,032,224	-	129,832	-	-	-
-	-	-	317,455	56,298	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,032,224</u>	<u>1,229,868</u>	<u>129,832</u>	<u>317,455</u>	<u>56,298</u>	<u>444,859</u>
(19,868)	49,985	67,396	97,236	(37,024)	(4,716)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	27,539	-	-	-
-	-	<u>27,539</u>	-	-	-
-	-	-	-	-	-
-	-	-	4,845	-	-
-	-	27,195	92,391	-	-
-	-	-	-	-	-
-	-	<u>27,195</u>	<u>97,236</u>	-	-
(19,868)	49,985	67,740	(0)	(37,024)	(4,716)
-	-	-	-	-	-
45,501	340,901	116,591	-	-	0

The accompanying notes are an integral part of this statement.

City of Sunnyside
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		Total for All Funds (Memo Only)	601 Jail Trust Fund	602 Court Trust Account Fund	611 FIREMAN'S RELIEF & PENSION
308	Beginning Cash and Investments	485,286	176,562	37,412	266,818
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	14,402	-	-	14,402
380-390	Other Increases and Financing Sources	1,123,413	105,563	1,017,849	-
510-570	Expenditures	7,670	-	-	7,670
580-590	Other Decreases and Financing Uses	1,287,977	271,464	1,016,512	-
Net Increase (Decrease) in Cash and Investments:		(157,833)	(165,901)	1,337	6,732
508	Ending Cash and Investments	327,454	10,661	38,749	273,550

		621 POLICE DEPT HONOR GUARD		
308	Beginning Cash and Investments	4,494		
388 & 588	Prior Period Adjustments, Net	-		
310-360	Revenues	-		
380-390	Other Increases and Financing Sources	-		
510-570	Expenditures	-		
580-590	Other Decreases and Financing Uses	-		
Net Increase (Decrease) in Cash and Investments:		-		
508	Ending Cash and Investments	4,494		

The accompanying notes are an integral part of this statement.

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sunnyside reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Sunnyside, Washington was incorporated on September 16, 1902 and operates under the laws of the State of Washington applicable to a non-charter code city with a Council/Manager form of government. The City of Sunnyside is a general purpose government and provides public safety (police, fire, jail), Municipal Court, public improvements (streets, traffic signals), sanitation (solid waste disposal, sanitary sewer facility), water utility, stormwater utility, ambulance/ems utility, community development, and parks and recreation. The City of Sunnyside uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. FUND ACCOUNTING

The accounts of the City of Sunnyside are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Sunnyside's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Sunnyside:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

FIDUCIARY FUND TYPES:

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

A Pension Trust Fund is used to account for the operations of a trust established for certain employee retirement benefits. It is accounted for in essentially the same manner as proprietary funds because of the need for determining inter-period income of the Trust.

B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. BUDGETS

The City of Sunnyside adopts annual appropriated budgets for all funds except for fiduciary funds which are not budgeted. Budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
GENERAL FUND	9,723,078	9,503,614	219,464
JAIL FUND	860,175	754,980	105,195
RECREATION FUND	587,743	621,996	(34,253)
West Sunnyside Business Park	20,043	20,685	(642)
PAYROLL LIABILITY FUND		176,190	(176,190)
Total 001 - GENERAL FUND	11,191,039	11,077,464	113,575
101 - STREET	6,706,625	6,154,720	551,905
120 - INVESTIGATIVE FUND	44,931	37,843	7,088
130 - POLICE DEPT CRIME PREVENTION	74,900	64,541	10,359
140 - PUBLIC SAFETY TAX	378,194	371,084	7,110
160 - TOURISM EXPANSION	127,150	96,330	30,820
201 - GENERAL OBLIGATION BONDS	848,808	850,615	(1,807)
304 - LOCAL CAPITAL IMPROVEMENTS (REET 1)	74,715	99,715	(25,000)
305 - LOCAL CAPITAL IMPROVEMENT (REET 2)		341	(341)
322 - FIRE EQUIPMENT RESERVE FUND	15,930	15,926	4
323 - 2011 FIRE STATION PROJECT	2,300,000	963,918	1,336,082
410 - WATER	2,521,819	2,309,674	212,145
WATER/SEWER REVENUE BOND	360,756	360,756	(0)
W/S CAPITAL PROJECTS	527,831	527,831	
SEWER	2,918,964	2,346,661	572,303
Total 420 - SEWER	3,807,551	3,235,248	572,303
430 - GARBAGE	887,752	1,113,699	(225,947)
440 - AMBULANCE/EMS	1,452,556	1,404,940	47,616
450 - STORMWATER	741,218	344,362	396,856
501 - EQUIPMENT RENTAL	383,108	382,114	994
503 - PUBLIC WORKS SERVICE CENTER	51,734	55,387	(3,653)
504 - INFORMATION TECHNOLOGY	408,282	418,115	(9,833)

Budgeted amounts are authorized to be transferred between (departments within any fund/object class within departments); however, any revision that alters the total expenditures of a fund, or that affects the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Sunnyside's legislative body.

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

D. CASH

It is the City of Sunnyside's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. DEPOSITS

The City of Sunnyside's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and/or the Washington Public Deposit Protection Commission (WPDPC).

F. INVESTMENTS (see Note 3 – Investments)

G. DERIVATES AND SIMILAR TRANSACTIONS

The City of Sunnyside has not bought, held or sold any derivatives during the period covered by the financial statements.

H. CAPITAL ASSETS

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one (1) year. The capital assets of the City of Sunnyside are recorded as expenditures when purchased.

I. COMPENSATED ABSENCES

Vacation leave may be accumulated up to 240 or 360 hours and is payable upon separation or retirement. The accumulated maximum hours vary by type of employee based upon the applicable union contract, employment agreement or ordinance.

Sick leave may be accumulated up to 960 hours for commissioned police officers, police support staff and non-represented staff. Public works employees and other clerical employees may accrue up to 1,040 hours. Firefighters may accumulate up to 1,440 hours. The City pays for sick leave that exceeds the maximum accrual rate as of December 31st of each year. Those excess hours for full time employees are paid at 25% of their value. Upon separation after completing at least 10 years of service, all employees represented by union contract shall be paid 25% of their accumulated sick leave. Unless a specific employment agreement is in effect, non-represented employees shall be paid 25% of their accumulated sick leave upon retirement.

J. LONG-TERM DEBT NOTE (See Note 6 – Long-Term Debt)

K. OTHER FINANCING SOURCES OR USES

The City of Sunnyside's *Other Financing Sources or Uses* consist of transfers-in, transfers-out, intergovernmental loan proceeds, proceeds from sale of capital assets, insurance recoveries, and other note proceeds.

L. RISK MANAGEMENT

The City of Sunnyside 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.

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, 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, and 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.

M. RESERVED FUND BALANCE

The City of Sunnyside Sewer Fund had a \$228,500 reservation of fund balance in order to comply with the 2007 Revenue Bond covenants.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

In 2013 there are several funds exceeding legal appropriations based on annual funds of the City of Sunnyside. Due to turnover in the City Manager and Finance staff, the City staff did not prepare a budget amendment for Council approval to adjust for the budget over expenditures. (See Subsequent Events – Other Disclosures Note A).

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3 – INVESTMENTS

The City of Sunnyside's investments are either insured, registered or held by the City of Sunnyside or its agent in the City of Sunnyside's name.

Investments by type at December 31, 2013 are as follows:

Type of Investment	City of Sunnyside's own investments	Investments held by City of Sunnyside as an agent for other local governments, individuals or private organizations	Total
Local Government Investment Pool (LGIP)	4,211,312	0	4,211,312
Municipal Investor Account	6,800,115	43,612	6,843,727
Total	\$11,011,427	\$43,612	\$11,055,039

The Washington State Local Government Investment Pool, which is operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Act of 1940, is unrated. The pool is 100% guaranteed by the Washington Public Deposit Protection Commission. The Pool presents no custodial, credit or interest rate risk.

Municipal Investor Account is a market-rate savings account with US Bank and is fully insured by the FDIC and the Washington Public Deposit Protection Commission.

NOTE 4 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes 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 of Sunnyside. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City of Sunnyside's regular levy for the year 2013 was \$2.99849311295 per \$1,000 on an assessed valuation of \$625,318,268 for a total regular levy of \$1,875,012.52. In 2013, the City of Sunnyside had a voter-approved excess levy of \$1.15292198 per \$1,000 of assessed value on excess value of \$619,296,024 for payment of General Obligation Bonds for a total additional levy of \$714,000.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Sunnyside and summarizes the City of Sunnyside's debt transactions for year ended December 31, 2013.

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

The debt service requirements for general obligation bonds including both principal and interest, are as follows:

YEAR	GENERAL OBLIGATION AMOUNT	REVENUE AMOUNT	TOTAL
2013	966,009	1,249,773	2,215,782
2014	935,795	1,133,187	2,068,982
2015	679,604	1,129,461	1,809,065
2016	666,659	1,134,492	1,801,151
2017	670,734	1,133,518	1,804,252
2018-2031	8,840,959	10,353,360	19,194,319
TOTAL	\$12,759,760	\$16,133,791	\$28,893,551

General Obligation Debt

2007 LTGO Bonds

In 2007, the City of Sunnyside issued \$2,760,000 in Limited Tax General Obligation (LTGO) Bonds for the purpose of providing financing for the cost of land acquisition. These bonds were issued by a vote of the City Council for the purpose of financing the Monson Ranches Feedlot land purchase; since renamed West Sunnyside Business Park.

2001 UTGO Refunding Bonds

In 2001, the City of Sunnyside issued \$4,350,000 in Unlimited Tax General Obligation (UTGO) Refunding Bonds for the purpose of substantial debt service savings. These bonds refunded voter-approved UTGO bonds issued in 1990 and 1995 for the purpose of constructing the City Pool and Law & Justice Center, respectively.

2012 UTGO Bonds

In 2012, the City of Sunnyside voters approved the issuance of \$5.3 million in general obligation 20 year bonds to enhance fire and medical aid response including renovating the fire station and financing or refinancing the purchase of adjacent land and equipment.

2012 UTGO Refunding Bonds

In 2012, the City of Sunnyside issued \$725,000 in Unlimited Tax General Obligation (UTGO) two year Refunding Bonds for the purpose of substantial debt service savings. These bonds refunded voter-approved UTGO bonds issued in 2001 which had previously refunded bonds issued in 1990 and 1995 for the purpose of constructing the City Pool and Law & Justice Center, respectively.

Lease Purchase Agreements

In 2008, the City of Sunnyside entered into a lease-purchase agreement with Banner Bank for the purpose of equipment replacement. The agreement allowed for the purchase of six vehicles to be used in various departments. This loan was paid in full in August, 2013. s/b 2012 57,565.75 total

In 2011, the City of Sunnyside entered into a lease-purchase agreement with US Bank for the purpose of equipment replacement. The agreement allowed for the purchase of five vehicles for the police department. 253,958

Supporting Investments in Economic Development (SIED)

In 2008, the City of Sunnyside secured a \$109,192 Supporting Investment in Economic Development loan from Yakima County on the behalf of K2R Properties, LLC for the purpose of street infrastructure improvements. K2R Properties, LLC is repaid the City of Sunnyside principal plus interest on this loan over a seven year term.

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

In 2012, the City of Sunnyside secured a \$25,000 Supporting Investment in Economic Development loan from Yakima County to augment an FAA grant to install an Air Weather Observation System (AWOS) III system for the airport. The City will pay principal and interest on this loan over a five year term.

Revenue Debt

2007 Water/Sewer Revenue Bonds

In 2007, the City of Sunnyside issued \$2,285,000 in Water/Sewer Revenue Bonds for the purpose of financing capital improvements to the water and sewer systems.

2005 Water/Sewer Refunding Bonds

In 2005, the City of Sunnyside issued \$3,640,000 in Water/Sewer Revenue Refunding Bonds for the purpose of substantial debt service savings. These bonds refunded Water/Sewer Revenue Bonds issued in 1993 and 1996.

Supporting Investments in Economic Development (SIED)

In 2005, the City of Sunnyside secured an additional \$275,000 Supporting Investment in Economic Development loan from Yakima County on the behalf of Powell Distribution for the purpose of widening a 1,320 foot stretch of Allen Road that includes curbs, gutters and sidewalks and for building a 1,230 foot long "Quail Lane" connecting two streets and for installing 350 feet of water and sewer lines to the Powell Distribution property. Powell Distribution repaid the City of Sunnyside in May, 2013.

State Revolving Fund Loans

In 2004, the City of Sunnyside secured a \$4,040,000 State Revolving Fund loan from the State of Washington to finance the Water Source Development Project. As of December 31, 2013, the City of Sunnyside has drawn a total of \$3,555,242 on this loan and remitted principal payments totaling \$809,281 s/b 869,551 per draw report. Only the drawn down portion less principal and interest repayments is included in debt service figures in the chart above.

In 2006, the City of Sunnyside secured a \$12,376,640 State Revolving Fund loan from the State of Washington to finance the 2005-2007 Wastewater Treatment Plant rehabilitation. The balance on December 31, 2013 was \$8,568,443.

NOTE 6 - PENSION PLANS

Substantially all City of Sunnyside's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Law Enforcement Officers' and Fire Fighters' Retirement system (LEOFF) Plans 1 and 2, Public Safety Employees' Retirement System (PSERS) Plan 2 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Sunnyside's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems, Communications Unit
PO Box 48380
Olympia, WA 98504-8380

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

Local Government Pension System

The City of Sunnyside is also the administrator of a pension retirement system called the Firemen's Relief and Pension Fund. The system is shown as a trust fund in the financial statements of the City. As of December 31, 2013, there were a total of three individuals covered by this system of which none were currently employed and three were drawing benefits.

The most recent actuarial review of the system was done by Randall & Hurley, Inc. to determine the funding requirements as of December 31, 2005. As of that date, the market value of assets was \$336,053 and the actuarial present value of future benefits was \$356,956 leaving an unfunded pension benefit obligation of \$20,903. However, it was determined that a contribution rate of \$9,500 per year would be sufficient to fund the plan. The City of Sunnyside will maintain the funding policy of contributing 100% of the City of Sunnyside's share of the State tax on fire insurance premiums to the Firemen's Relief and Pension Fund. In 2013, this contribution totaled \$14,007.

Plan Description

The Firemen's Relief and Pension Fund was established by the City of Sunnyside in compliance with the requirements of the Revised Code of Washington (RCW) 41.20 and 41.18, and the City of Sunnyside administers the plan. The pension plan is a closed, single-employer, defined benefit retirement plan.

When the Law Enforcement Officers' and Firefighters (LEOFF) pension system was initiated, the State of Washington assumed the major portion of the obligation to provide future retirement benefits for members still in active service at the LEOFF inception date (March 1, 1970). The City of Sunnyside retains the responsibility for all benefits payable to members (or to their survivors) who retired prior to that date. In addition, the City of Sunnyside retains the responsibility for a portion of the benefits payable to members who were active on that date.

Generally, benefits under the LEOFF retirement benefit system are greater than or equal to the retirement benefits under the old City of Sunnyside plan when payments begin. However, LEOFF retirement benefits increase with the consumer price index (CPI-Seattle), while some City of Sunnyside benefits increase with wages of current active members. If wages go up faster than the CPI, the City of Sunnyside becomes liable for the residual amount.

All City of Sunnyside firefighters who served before March 1, 1970 are participants of this pension fund. Those hired between March 1, 1970 and September 30, 1977 are eligible for a supplemental retirement benefit plus health benefits under this plan. Eligible firefighters may retire with full benefits at age 50 after completing 20 years of service, or after 25 years of service regardless of age.

Funding Policy

Under State law, partial funding of the Firemen's Relief and Pension Fund may be provided by an annual tax levy of up to \$0.50 per \$1,000 of assessed value of all taxable City of Sunnyside property. Currently, there are no property taxes that fund the Firemen's Pension Fund. Under State law, the Firemen's Relief and Pension Fund is provided an allocation of 25% of all monies received by the State from taxes on fire insurance premiums. The General Fund may provide additional funding through transfers as necessary. Active pension plan members are not required to contribute to the plan. The City of Sunnyside currently allocates 100% of fire insurance premiums to the Firemen's Relief and Pension Fund, and therefore additional funding from the General Fund is not required. The plan is administered on a pay-as-you-go basis

OTHER DISCLOSURES

A. COMBINED FUNDS

For budgetary and operating purposes, the City of Sunnyside separated the Jail, Recreation and West Sunnyside Business Park divisions from the General Fund and placed them into their own funds (005, 006 and 007, respectively) beginning January 1, 2006. However, for reporting purposes, the City of

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

Sunnyside can have only one General Fund. Therefore, Jail, Recreation and West Sunnyside Business Park financial activities have been combined with the General Fund for the 2013 Annual Report. All transfers amongst these three funds have been eliminated for reporting purposes. In addition, the Payroll Liability Fund (099) and the Contingency Fund (115) are rolled in to the General Fund. The Payroll Liability Fund was established as a result of the change from the double-entry accrual accounting used in the Eden Software system to the cash basis used with BIAS software. The Contingency Fund was designated as a special revenue fund for managerial purposes but it was originally sourced from the General Fund and is therefore rolled in to that fund.

For revenue bond reserves and redemption, and revenue bond-funded capital projects, the City of Sunnyside established the Water/Sewer Revenue Bond and the Water/Sewer Capital Projects Funds (415 and 416, respectively). The bond-funded capital project is multi-year project that began in 2008 and continued into 2012. Until the project is completed, the bond debt proportions allocable to the Water and Sewer Funds are unknown, which is the reason the two bond funds were established. However, when reporting such proprietary activities, all of those functions must be contained in one fund. In this case, Water/Sewer Revenue Bond and Water/Sewer Capital Projects Funds' financial activities have been combined with the Sewer Fund for the 2013 Annual Report because the majority of the activities are sewer-related. All transfers amongst these three funds have been eliminated for reporting purposes. When the capital project has been completed, the two bond funds will be dissolved, and all bond reserves and redemption activities will be allocated proportionately to the Water and Sewer Funds.

B. MISMATCHED TRANSFER

The 2013 Budget shows a transfer from the Garbage Fund (430) to the General Fund (001) in the amount of \$82,000. This transfer was not completed due to the lack of supporting documentation justifying a transfer from an enterprise fund to a general purpose fund.

C. LEGAL COMPLIANCE DISCLOSURES

The 2013 Budget on page 3 of the Notes to the Financial Statements shows several funds over the appropriated budget amounts. Fund 201 – General Obligation Bonds has an overpayment of interest. Fund 304 REET 1, Fund 305 REET 2, 503 Public Works Service Center and 504 Information Technology were inadvertently missed during the end of the year review for the last budget amendment. Fund 430 – Garbage shows a large deficit due to garbage billing being lower than charges from Yakima Waste. An audit was started in August, 2014 to begin addressing the differences between charges and billing. This audit is on-going as of May, 2015.

D. INTERLOCAL AGREEMENTS

The City of Sunnyside has entered in to the following interlocal agreements:

- a. City of Grandview for animal control services contract with the Yakima Humane Society
- b. City's of Granger, Fife, Lynnwood, Yakima, Zillah, Othello, Mabton, Orting and Briar; County of Kittitas; US Department of Justice; State of Washington Department of Corrections for housing prisoners
- c. Yakima County Fire District, Hanford, Prosser Fire District, and the Washington State Patrol for mutual aid
- d. City of Prosser, City of Grandview and City of Mabton for use of equipment and/or staff
- e. Yakima County and cities of Yakima, Union Gap, and Sunnyside for stormwater permit compliance activities
- f. Yakima County and the cities of Yakima County for Solid Waste Management
- g. Yakima County Law Enforcement Against Drugs Narcotics & Gang Task Force
- h. Sunnyside School District No. 201, Facility Use Agreement
- i. Yakima County for Emergent IT Services

**CITY OF SUNNYSIDE
NOTES TO THE FINANCIAL STATEMENTS**

E. PENDING AND THREATENED LITIGATION

Because of its activities, and federal and state grant awards, the City of Sunnyside is subject to certain legal actions which arise in the ordinary course of business. The City believes based on the information presently known, that any ultimate liability for such actions will not be material to the financial position of the City.

**City of Sunnyside
Schedule of Liabilities
For the Year Ended December 31, 2013**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	2007 LTGO BOND	12/1/2027	2,445,000	-	115,000	2,330,000
251.11	2012 (A) LTGO Bond	12/1/2031	5,300,000	-	243,098	5,056,902
251.11	2012 (B) LTGO REFDG	12/1/2014	725,000	-	360,000	365,000
263.51	US Bank #5	9/20/2014	143,871	-	81,306	62,565
263.51	Banner Bank #2	8/19/2013	10,896	-	10,896	-
263.81	SIED #3 Columbia River Bank	6/1/2015	50,214	-	16,126	34,088
263.81	SIED #4 Airport	6/1/2018	25,000	-	-	25,000
259.11	Compensated Absences - General Obligation	12/31/2013	-	878,295	-	878,295
Total General Obligations:			8,699,981	878,295	826,426	8,751,850
Revenue Obligations						
252.11	2005 Water/Sewer Revenue Refinance	8/1/2017	1,070,000	-	195,000	875,000
252.11	2007 Water/Sewer Revenue	12/1/2027	2,285,000	-	-	2,285,000
263.82	SIED #2 RE Powell Dist	6/1/2015	95,529	-	95,529	-
263.82	DWSRF Loan	10/1/2025	1,874,417	1,018,529	146,985	2,745,961
263.82	Ecology Loan	4/16/2027	9,520,492	-	952,049	8,568,443
259.12	Compensated Absences - Revenue	12/31/2013	-	100,106	-	100,106
Total Revenue Obligations:			14,845,438	1,118,635	1,389,563	14,574,510
Total Liabilities:			23,545,419	1,996,930	2,215,989	23,326,360

City of Sunnyside
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
CDBG - State-Administered CDBG Cluster							
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA State Department of Commerce)	Community Development Block Grants/State's program and Non- Entitlement Grants in Hawaii	14.228	09-64005-067	2,498	-	2,498	1, 3
Total CDBG - State-Administered CDBG Cluster:				2,498	-	2,498	
Drinking Water State Revolving Fund Cluster							
Office Of Water, Environmental Protection Agency (via WA State Department of Community, Trade & Economic Development)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	04-65104-035	1,403,921	-	1,403,921	1, 4
Total Drinking Water State Revolving Fund Cluster:				1,403,921	-	1,403,921	
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS- 9939(021)	250,000	-	250,000	1, 2
Total Highway Planning and Construction Cluster:				250,000	-	250,000	
JAG Program Cluster							
Bureau Of Justice Assistance, Department Of Justice (via Yakima County Sheriff's Office)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	LEAD Task Force	8,770	-	8,770	1, 2
Total JAG Program Cluster:				8,770	-	8,770	

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Other Programs							
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	COPS-CHRP- 2009-1	-	10,519	10,519	1, 2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	AIP 3-53-0074- 005	-	14,287	14,287	1, 2
Executive Office Of The President (via Yakima County Sheriff's Office)	High Intensity Drug Trafficking Areas Program	95.001	LEAD Task Force	4,396	-	4,396	1, 2
Total Federal Awards Expended:				1,669,585	24,806	1,694,391	

CITY OF SUNNYSIDE, WASHINGTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Sunnyside's financial statements. The City of Sunnyside uses cash basis accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Sunnyside's portion, are more than shown.

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The City of Sunnyside has a revolving loan program for low income housing renovation. Under this federal program, repayments to the City of Sunnyside are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants were distributed in 2004 or prior. The amount of principal and interest received in loan repayments for the year was \$2,498.41.

NOTE 4 - FEDERAL LOANS

The City of Sunnyside was approved by the EPA and the PWB to receive a loan totaling \$4,040,000 to improve its drinking water system.

The amount listed for each loan includes the proceeds received during the year and the outstanding loan balance from prior years. Both the current and prior year loans are also reported on the City of Sunnyside's Schedule of Long-Term Liabilities.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER OMB CIRCULAR A-133**

**City of Sunnyside
Yakima County
January 1, 2013 through December 31, 2013**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Sunnyside.

Finding ref number: 2013-001	Finding caption: The City did not have adequate internal controls over accounting and financial statement preparation to ensure accurate reporting.
Name, address, and telephone of auditee contact person: Elizabeth Alba, Finance Director 818 E. Edison Avenue Sunnyside, WA 98944 509-836-6392	
Corrective action the auditee plans to take in response to the finding: <i>The City of Sunnyside acknowledges the auditor's comments, and understands the concerns expressed. In 2014, the City added additional staff to the finance department to assist with timely preparation of financial documents. Finance staff has attended BARS/Annual Report training and will continue to seek opportunities to continue training as available. The City is actively working toward an independent review of the financial statements by contracting with an outside third party vendor or seeking a review from another entity with knowledge of correct financial reporting. It is to be noted the 2014 Annual Report was submitted on time. The City has been proactive since 2014 to correct the deficiencies found in the 2011, 2012 and 2013 internal controls for properly reporting financial transactions.</i> <i>The City of Sunnyside is actively preparing bank reconciliations on a monthly basis in 2015 with proper support and documentation which is reviewed by the City Manager and Director of Finance. The City is actively working toward a new procedure for the creation, support and review of journal entries. In the process of transition to BIAS software from Eden software in 2013, the number of journal entries has been reduced. All journal entries are created by the Financial Analyst and reviewed by the Director of Finance. In the absence the Financial Analyst or Director of Finance a review will be completed and signed off by the City Manager.</i>	
Anticipated date to complete the corrective action: Effective immediately	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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