



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

**Financial Statements Audit Report**  
**City of Duvall**

**For the period January 1, 2017 through December 31, 2017**

**Published January 31, 2019**

**Report No. 1023192**





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

January 31, 2019

Mayor and City Council  
City of Duvall  
Duvall, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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.....	4
Independent Auditor’s Report on Financial Statements .....	7
Financial Section.....	10
About the State Auditor’s Office .....	27

**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 Duvall  
January 1, 2017 through December 31, 2017**

Mayor and City Council  
City of Duvall  
Duvall, 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 Duvall, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 24, 2019.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy  
State Auditor  
Olympia, WA

January 24, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Duvall January 1, 2017 through December 31, 2017

Mayor and City Council  
City of Duvall  
Duvall, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Duvall, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

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

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Duvall, for the year ended December 31, 2017, 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 Duvall, as of December 31, 2017, 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019 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.



Pat McCarthy

State Auditor

Olympia, WA

January 24, 2019

## **FINANCIAL SECTION**

### **City of Duvall January 1, 2017 through December 31, 2017**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2017  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017  
Notes to Financial Statements – 2017

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2017

**City of Duvall**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>Total for All Funds (Memo Only)</b>	<b>001 GENERAL FUND</b>	<b>101 STREET FUND</b>	<b>106 BIG ROCK BALL PARK FUND</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	6,221,906	934,496	111,973	25,535
30880	Unreserved	4,839,093	476,439	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	4,712,477	3,815,707	278,600	-
320	Licenses and Permits	665,348	653,872	11,476	-
330	Intergovernmental Revenues	4,846,901	234,928	168,611	-
340	Charges for Goods and Services	7,036,169	485,419	-	11,443
350	Fines and Penalties	106,605	48,705	-	-
360	Miscellaneous Revenues	1,927,202	100,135	854	102
Total Revenues:		<u>19,294,702</u>	<u>5,338,766</u>	<u>459,541</u>	<u>11,545</u>
<b>Expenditures</b>					
510	General Government	1,394,161	1,107,644	-	-
520	Public Safety	2,220,857	2,220,857	-	-
530	Utilities	3,978,237	-	-	-
540	Transportation	792,567	235,514	489,857	-
550	Natural and Economic Environment	649,496	649,496	-	-
560	Social Services	4,175	4,175	-	-
570	Culture and Recreation	450,840	339,719	-	85,303
Total Expenditures:		<u>9,490,333</u>	<u>4,557,405</u>	<u>489,857</u>	<u>85,303</u>
Excess (Deficiency) Revenues over Expenditures:		9,804,369	781,361	(30,316)	(73,758)
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	4,865,000	-	-	-
397	Transfers-In	6,853,272	162,303	50,000	65,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	4,573	2,739	1,834	-
Total Other Increases in Fund Resources:		<u>11,722,845</u>	<u>165,042</u>	<u>51,834</u>	<u>65,000</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	10,592,788	-	-	-
591-593, 599	Debt Service	1,325,522	-	-	-
597	Transfers-Out	6,853,272	345,218	30,007	5,096
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>18,771,582</u>	<u>345,218</u>	<u>30,007</u>	<u>5,096</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>2,755,632</b>	<b>601,185</b>	<b>(8,489)</b>	<b>(13,854)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	3,363,221	-	-	-
5088000	Unreserved	10,453,419	2,012,124	103,483	11,680
<b>Total Ending Cash and Investments</b>		<b>13,816,640</b>	<b>2,012,124</b>	<b>103,483</b>	<b>11,680</b>

The accompanying notes are an integral part of this statement.

**City of Duvall**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

	<b>107 SENSITIVE AREAS MITIGATION</b>	<b>206 LTGO - DEBT SERVICE FUND</b>	<b>304 REAL ESTATE EXCISE TAX 1 FUND</b>	<b>305 REAL ESTATE EXCISE TAX 2 FUND</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	38,619	-	691,236
30880	Unreserved	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-
<b>Revenues</b>				
310	Taxes	-	-	309,085
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	264	19,865	4,911
Total Revenues:		264	19,865	313,996
<b>Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	-	-	-
540	Transportation	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		-	-	-
Excess (Deficiency) Revenues over Expenditures:		264	19,865	313,996
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	4,865,000	-
397	Transfers-In	-	473,884	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	5,338,884	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	-	-	6,037
591-593, 599	Debt Service	-	532,040	-
597	Transfers-Out	-	4,806,844	181,222
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		-	5,338,884	187,259
<b>Increase (Decrease) in Cash and Investments:</b>		<b>264</b>	<b>19,865</b>	<b>126,737</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	-	817,974
5088000	Unreserved	38,883	19,865	-
<b>Total Ending Cash and Investments</b>		<b>38,883</b>	<b>19,865</b>	<b>817,974</b>

**City of Duvall**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<u>306 MAIN STREET IMPROVEMENT</u>	<u>307 STREET CAPITAL IMPROVEMENT</u>	<u>308 PARKS CAPITAL IMPROVEMENT</u>	<u>401 WATER FUND</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	206,334	314,136	780,203	680,269
30880	Unreserved	-	-	-	2,535,784
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	3,739,279	-	540,847	-
340	Charges for Goods and Services	-	526,494	412,866	2,003,035
350	Fines and Penalties	-	-	-	57,900
360	Miscellaneous Revenues	3,915	3,772	106,627	682,954
Total Revenues:		<u>3,743,194</u>	<u>530,266</u>	<u>1,060,340</u>	<u>2,743,889</u>
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	1,646,619
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	25,818	-
Total Expenditures:		<u>-</u>	<u>-</u>	<u>25,818</u>	<u>1,646,619</u>
Excess (Deficiency) Revenues over Expenditures:		<u>3,743,194</u>	<u>530,266</u>	<u>1,034,522</u>	<u>1,097,270</u>
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	4,100,212	-	2,001,873	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>4,100,212</u>	<u>-</u>	<u>2,001,873</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	7,099,657	-	2,914,380	63,022
591-593, 599	Debt Service	-	-	-	15,680
597	Transfers-Out	-	331,222	-	313,667
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>7,099,657</u>	<u>331,222</u>	<u>2,914,380</u>	<u>392,369</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b><u>743,749</u></b>	<b><u>199,044</u></b>	<b><u>122,015</u></b>	<b><u>704,901</u></b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	513,180	902,218	-
5088000	Unreserved	950,081	-	-	3,920,955
<b>Total Ending Cash and Investments</b>		<b><u>950,081</u></b>	<b><u>513,180</u></b>	<b><u>902,218</u></b>	<b><u>3,920,955</u></b>

**City of Duvall**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>402 SEWER FUND</b>	<b>404 STORM DRAINAGE FUND</b>	<b>501 VEHICLE &amp; EQUIP MAINTENANCE</b>	<b>502 IT FUND</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	1,418,943	283,447	200,000	-
30880	Unreserved	977,615	376,715	326,576	95,754
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	141,286	1,050	-
340	Charges for Goods and Services	2,323,751	718,001	155,134	252,556
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	905,465	88,724	3,469	710
Total Revenues:		<u>3,229,216</u>	<u>948,011</u>	<u>159,653</u>	<u>253,266</u>
<b>Expenditures</b>					
510	General Government	135	-	-	185,545
520	Public Safety	-	-	-	-
530	Utilities	1,569,906	761,712	-	-
540	Transportation	-	-	67,196	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>1,570,041</u>	<u>761,712</u>	<u>67,196</u>	<u>185,545</u>
Excess (Deficiency) Revenues over Expenditures:		<u>1,659,175</u>	<u>186,299</u>	<u>92,457</u>	<u>67,721</u>
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	70,430	294,714	102,240	35,490
591-593, 599	Debt Service	777,802	-	-	-
597	Transfers-Out	627,446	31,328	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>1,475,678</u>	<u>326,042</u>	<u>102,240</u>	<u>35,490</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b><u>183,497</u></b>	<b><u>(139,743)</u></b>	<b><u>(9,783)</u></b>	<b><u>32,231</u></b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	494,000	-	-	-
5088000	Unreserved	2,086,059	520,418	516,794	127,984
<b>Total Ending Cash and Investments</b>		<b><u>2,580,059</u></b>	<b><u>520,418</u></b>	<b><u>516,794</u></b>	<b><u>127,984</u></b>

**City of Duvall**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>503 BUILDING MAINTENANCE FUND</b>
		<hr/>
<b>Beginning Cash and Investments</b>		
30810	Reserved	25,600
30880	Unreserved	50,210
388 / 588	Prior Period Adjustments, Net	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	20,900
340	Charges for Goods and Services	147,470
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,748
Total Revenues:		<hr/> 170,118
<b>Expenditures</b>		
510	General Government	100,837
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 100,837
Excess (Deficiency) Revenues over Expenditures:		69,281
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> -
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
<b>Increase (Decrease) in Cash and Investments:</b>		<hr/> <b>69,281</b>
<b>Ending Cash and Investments</b>		
5081000	Reserved	-
5088000	Unreserved	145,093
<b>Total Ending Cash and Investments</b>		<hr/> <b>145,093</b>

**City of Duvall**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>Agency</b>
308	Beginning Cash and Investments	8,092
388 & 588	Prior Period Adjustment, Net	-
310-390	Additions	406,049
510-590	Deductions	408,085
	Net Increase (Decrease) in Cash and Investments:	(2,036)
508	Ending Cash and Investments	6,057

*The accompanying notes are an integral part of this statement.*

**City of Duvall**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2017**

**Note 1 - Summary of Significant Accounting Policies**

The City of Duvall was incorporated on 1913 and operates under the laws of the state of Washington applicable to a non-charter code City. The City is a general purpose local government and provides public safety, street improvements, parks and recreation, general governmental services. Additionally, the of Duvall owns and operates the distribution water system, sewer and sewer treatment and storm water utility systems

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

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

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. 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.

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 an agent on behalf of others.

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

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

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

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

<b>Fund</b>	<b>Description</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
001	General Fund	\$ 6,353,521.38	\$ 4,967,623.34	\$ 1,385,898.04
002	Contingency Fund	\$ 227,793.90	\$ -	\$ 227,793.90
101	Street Fund	\$ 620,310.14	\$ 519,863.82	\$ 100,446.32
106	Big Rock Ball Park Maintenance	\$ 104,635.21	\$ 90,399.74	\$ 14,235.47
107	Sensitive Areas Mitigation Fund	\$ 38,718.95	\$ -	\$ 38,718.95
206	2016 LTGO Main St Debt Service	\$ 5,350,884.00	\$ 5,338,883.83	\$ 12,000.17
304	Real Estate Excise Tax Fund 1	\$ 887,636.24	\$ 187,258.78	\$ 700,377.46
305	Real Estate Excise Tax Fund 2	\$ 707,115.42	\$ 188,039.56	\$ 519,075.86
306	Main St Improvement Fund	\$ 9,503,857.99	\$ 7,099,657.11	\$ 2,404,200.88
307	Street CIP Fund	\$ 880,301.64	\$ 331,222.00	\$ 549,079.64
308	Parks CIP Fund	\$ 3,729,498.21	\$ 2,940,199.13	\$ 789,299.08
401	Water Fund	\$ 4,827,399.53	\$ 1,995,913.37	\$ 2,831,486.16
402	Sewer Fund	\$ 4,454,987.51	\$ 2,473,753.86	\$ 1,981,233.65
404	Storm Drainage Fund	\$ 1,803,614.89	\$ 1,086,017.65	\$ 717,597.24
407	Water CIP Fund	\$ 917,734.08	\$ 43,075.15	\$ 874,658.93
408	Sewer CIP Fund	\$ 873,849.18	\$ 571,336.69	\$ 302,512.49
409	Storm Drainage CIP Fund	\$ 112,160.90	\$ 1,736.54	\$ 110,424.36
410	Bond Redemption Fund	\$ 461,237.94	\$ 443,246.30	\$ 17,991.64
411	Bond Reserve Fund	\$ 264,607.58	\$ 400.00	\$ 264,207.58
501	Equipment Fund	\$ 733,210.37	\$ 169,435.51	\$ 563,774.86
502	IT Fund	\$ 348,484.18	\$ 221,035.80	\$ 127,448.38
503	Building Maintenance Fund	\$ 216,679.86	\$ 100,835.07	\$ 115,844.79
	<b>Totals</b>	<b>\$ 43,418,239.10</b>	<b>\$ 28,769,933.25</b>	<b>\$ 14,648,305.85</b>

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

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 2 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated and is payable upon separation or retirement. Limitations exist for the first six to twelve months of employment depending upon bargaining group. The accumulation rate also varies depending on bargaining group.

1. Non-represented employees may accumulate a maximum of two years vacation accrual with CAO approval. Employees with over 15 years of service may accumulate a maximum of 400 hours. Employees with less than 12 months of service accrue vacation but are ineligible for payout.
2. Police Officers Guild employees may accumulate up to a maximum of 400 hours depending upon years of service. Officers may not carry over more than 240 hours from year to year.
3. Public Works and Office-Technical Union employees may accumulate up to a maximum of 400 hours depending upon years of service. Employees may carry over up to 200 hours from year to year (additional hours may be allowed with CAO approval). Any hours above 200 are paid out on the employee's anniversary date.

Sick leave may be accumulated subject to bargaining group limitations. Upon separation or retirement, any unused sick leave is paid at twenty-five (25) percent of the regular rate of pay in effect at the time of payment to all employees.

1. Non represented employees may accumulate up to 60 days (480 hours). After five years, employees may buy out up to 60 hours and after ten years employees may buy out up to 80 hours that is in excess of a 40 hour minimum that must be retained, at twenty-five percent of current pay rate.
2. Police Officers Guild employees may accumulate up to 960 hours. At the end of each year, guild employees may buy out sick leave in excess of 480 hours, payable at twenty-five percent of their current regular straight-time hourly pay rate.
3. Public Works Union employees have no maximum limit on accrued sick leave. After five years, employees may buy out hours in excess of 480 at twenty-five percent of the final pay rate.

Compensation time may be accumulated subject to bargaining group limitations. Compensatory time is time off in lieu of pay at the rate of one and one-half hours for each overtime pay hour worked.

1. Non represented employees may accumulate up to 80 hours and is reimbursable at separation. FLSA exempt employees do not qualify for this leave.
2. Police Officers Guild employees may accumulate up to 120 hours annually and at any time may opt to receive cash reimbursement for any unused time accrued.
3. Public Works Union employees may accumulate up to 100 hours. Annually on their anniversary date employees may receive cash reimbursement for unused time accrued.

Payments are recognized as expenditures when paid.

#### G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

#### H. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Ordinances or Resolutions by the City of Duvall City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of

External Restrictions:

Real Estate Excise Tax 1– Entire Ending Fund Balance **\$817,973.97**  
 Real Estate Excise Tax 2– Entire Ending Fund Balance **\$635,848.57**  
 Street Capital Improvement Fund (Traffic Impact Fee) – Entire Ending Fund Balance **\$513,180.03**  
 Parks Capital Improvement Fund (Park Impact Fee) - Entire Ending Fund Balance **\$ 902,217.52**  
 DOE Loan Reserves – Sewer Fund 402 **\$335,000**  
 Sewer Revenue – Bond Reserve (bond covenants) **\$159,000**

**Total Reserved Balance \$3,363,220.09**

\*See other disclosures for internal restrictions (resolution 04-04) that do not meet the *specific purpose* per the BARS Manual, but the City intended to hold as reserves.

**Note 2 – Deposits and Investments**

It is the City’s policy to invest all temporary cash surpluses. The interest on these investments *are* prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City or its agent in the government’s name.

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

<u>Type of Investment</u>	<u>City of Duvall’s Own Investment</u>	<u>Total</u>
Bank of America Money Market	\$ 3,050,719.08	\$3,050,719.08
State Local Government Investment Pool	\$ 4,951,906.11	\$4,951,906.11
U.S. Government Securities	\$ 5,157,650.92	\$5,157,650.92
<i>General Checking</i>	<i>\$1,374,678.38</i>	<i>\$1,374,678.38</i>
<i>Controlled Substance Checking</i>	<i>\$10,409.50</i>	<i>\$10,409.50</i>
<i>Revolving Funds (Petty Cash)</i>	<i>\$2,000</i>	<i>\$2,000</i>
<b>Total</b>	<b>\$14,547,363.99</b>	<b>\$14,547,363.99</b>

**Note 3 - Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed as received (daily).

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

The City’s regular levy for the year 2017 was \$1.65864 per \$1,000 on an assessed valuation of \$1,044,091,565 for a total regular levy of \$1,731,769.

#### **Note 4 – Debt Service Requirements**

##### **Debt Service**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city debt transactions for year ended December 31, 2017.

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

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 822,647.40	\$ 126,959.26	\$ 949,606.66
2019	\$ 694,264.34	\$ 112,878.82	\$ 807,143.16
2020	\$ 700,889.38	\$ 102,040.78	\$ 802,930.16
2021	\$ 712,522.57	\$ 91,070.09	\$ 803,592.66
2022	\$ 724,163.95	\$ 79,842.21	\$ 804,006.16
2023-2027	\$ 2,505,142.12	\$ 231,338.98	\$ 2,736,481.10
2028-2031	\$ 920,000.00	\$ 58,141.50	\$ 978,141.50
<b>TOTAL</b>	<b>\$ 7,079,629.76</b>	<b>\$ 802,271.64</b>	<b>\$ 7,881,901.40</b>

#### **Note 5 – Pension Plans**

##### **A. State Sponsored Pension Plans**

Substantially all city full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans Public Employees Retirement System (PERS) and Law Enforcement Officers and Fire Fighters (LEOFF).

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](http://www.drs.wa.gov).

At June 30, 2017 the city proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$100,116	0.016644 %	\$789,771
PERS 2/3	\$130,759	0.021408 %	\$743,826
PSERS 2			
LEOFF 1			
LEOFF 2	\$51,158.60	0.032384 %	(\$449,385)
VFFRPF			

**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 6 – Risk Management**

The City of Duvall 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 161 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 \$300 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 7 - Other Disclosures**

Transportation Benefit District (TBD). On September 15, 2015 the Duvall City Council approved Ordinance 1186, pursuant to RCW 35.21.225 and RCW 36.73, which established the Duvall Transportation Benefit District (TBD), its boundaries, and laid out specifications for which funds generated for the District could be used. *No funding mechanism has been approved to date.*

- On January 19, 2016 Duvall City Council approved Ordinance 1191 assuming the rights, powers, etc. of the Duvall TBD in accordance with State Senate Bill 5987. To date, no further legislation was passed authorizing revenue sources for the TBD.

Contingencies and litigation. In the normal course of its various operations, the City is involved in lawsuits and is the recipient of claims for damages alleging that the City is responsible for damages incurred by third parties. Claims and/or litigation arise in areas such as building, zoning, sewer construction and other land-use regulations, as well as other areas. These claims or lawsuits are relatively natural consequences of conducting the City’s business. Please refer to Risk Management Note 6. In the opinion of management, the City’s insurance policies and insurance reserves are adequate to pay all known or pending claims.

On February 7, 2017 Ordinance 1212 was adopted at the regularly scheduled City Council meeting. Ordinance 1212 authorized the issuance of Limited Tax General Obligation (LTGO) bonds in the amount of \$4,865,000 via private placement with JPMorgan Chase Bank, NA, of Portland, Oregon. \$3,004,970.18 of the proceeds of these bonds is to be utilized for the City’s portion of the Main Street South Reconstruction project and the remaining \$1,801,872.32 will be utilized for the City’s portion of the Big Rock Ballpark Renovation project. The remaining balance pays for issuance costs of the bonds. The Bond is a general obligation bond of the City. Principal of the Bond is payable annually on December 1 of each year from 2017 to 2031, inclusive. Interest on the Bond is payable semiannually on each June 1 and December 1, commencing on December 1, 2017. The Bond is payable from the proceeds of taxes levied against all of the taxable property located within the City and other funds available therefor.

- The first Main Street Project and Big Rock Ball Field Project debt payment was made on December 1, 2017

**Construction Commitment**

The City has active construction projects as of December 31, 2017. The projects include: *Main Street Construction Project, Big Rock Ball Field Turf Project and the Parkwood Storm Water Retrofit Project.*

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

<b>Project</b>	<b>Spent to Date (2017)</b>	<b>Remaining Commitment (2018)</b>
Main Street Construction Project	\$6,994,900.76	\$714,492.54

Big Rock Ball Field Turf Project	\$2,914,380.42	\$885,619.58
Parkwood Retrofit Project (Storm Water)	\$293,246.15	\$33,989.27

- 2018 Remaining Commitment is based off budget numbers, after first quarter amendment was adopted by City Council in March 2018.

Reserved Balances

Per Resolution 04-04 the City of Duvall has intended for the following to show as “reserved” beginning and ending fund balances, however the way that the BARS manual is written only the DOE Bond Loan Reserve & Sewer Revenue qualify as reserved. Internal reserve correction to the 2017 17% reserve calculation for the general fund, however SAO classifies all as unreserved. There will be no change on the financial statements.

Contingency Fund per council resolution	\$ 228,867
All expenditures require prior approval of the City Council by Ordinance	
Fund Balance Reserve Requirements per council resolution 04-04	\$ 2,895,733
- Per Fiscal Policy, includes 17% General Fund reserve, \$25k disaster prep, Equipment replacement fund of \$200k, and Utility Funds reserves. All require Council Ordinance in order to spend,classified by SAO as unreserved	
- Additional General Fund FB Restrictions include donations of \$10k for Art, \$13.7k for Stage Donations, Imprest Cash \$1k, and Drug Enforcement funds of \$11.4K- Internal Reserves, classified by SAO as unreserved	
Special Revenue Funds	154,046
Streets, Parks, and Sensitive Area mitigation	
Capital Improvement Funds	3,819,302
Real Estate Excise taxes, Parks and Roads Impact fees	
DOE Loan Reserves - Sewer Fund 402	335,000
Sewer Revenue - Bond Reserve	159,000
Loan/Bond Reserves set by loan terms and bond covenants	
<b>TOTAL RESERVED</b>	<b>\$ 7,628,031</b>

**City of Duvall  
Schedule of Liabilities  
For the Year Ended December 31, 2017**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	GO Debt - Main Street Project	12/1/2031	-	3,040,000	185,000	2,855,000
251.11	GO Debt - Big Rock Ball Field Turf Project	12/1/2025	-	1,825,000	195,000	1,630,000
	<b>Total General Obligation Debt/Liabilities:</b>		<b>-</b>	<b>4,865,000</b>	<b>380,000</b>	<b>4,485,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	Revenue Debt, Sewer Refunding Bonds	12/1/2018	565,000	-	430,000	135,000
263.82	Revenue Debt, PWTF for water main	6/30/2017	15,525	-	15,525	-
263.82	Revenue Debt, SRF for Wastewater Plant	6/20/2025	2,780,671	-	321,039	2,459,632
264.30	Net Pension Liability		2,027,960	-	494,364	1,533,596
259.12	Compensated Absences -GO & Revenue		331,885	43,997	-	375,882
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>5,721,041</b>	<b>43,997</b>	<b>1,260,928</b>	<b>4,504,110</b>
	<b>Total Liabilities:</b>		<b>5,721,041</b>	<b>4,908,997</b>	<b>1,640,928</b>	<b>8,989,110</b>

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>