



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

**Financial Statements Audit Report**

**City of Duvall**

**King County**

**For the period January 1, 2014 through December 31, 2015**

**Published March 6, 2017**

**Report No. 1018682**





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

March 6, 2017

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,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style.

Pat McCarthy  
State Auditor  
Olympia, WA

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**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  
King County  
January 1, 2014 through December 31, 2015**

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, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated February 21, 2017.

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 audits 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 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, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

February 21, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Duvall King County January 1, 2014 through December 31, 2015

Council  
City of Duvall  
Duvall, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Duvall, King County, Washington, for the years ended December 31, 2015 and 2014, 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 audits. We conducted our audits 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 years ended December 31, 2015 and 2014, 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, 2015 and 2014, or the changes in financial position or cash flows for the years 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 audits were performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying Schedules of Liabilities are 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 February 21, 2017 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

February 21, 2017

## **FINANCIAL SECTION**

**City of Duvall  
King County  
January 1, 2014 through December 31, 2015**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2015  
Fund Resources and Uses Arising from Cash Transactions – 2014  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014  
Notes to Financial Statements – 2015  
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### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2015  
Schedule of Liabilities – 2014

**City of Duvall**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>001 GENERAL FUND</b>	<b>101 STREET FUND</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	5,458,379	763,746	161,693
30880	Unreserved	3,995,580	281,736	-
388 & 588	Prior Period Adjustments, Net	64,383	-	-
<b>Operating Revenues</b>				
310	Taxes	3,786,591	3,011,329	248,948
320	Licenses and Permits	322,317	307,440	14,877
330	Intergovernmental Revenues	1,157,339	342,077	154,850
340	Charges for Goods and Services	5,626,725	240,773	-
350	Fines and Penalties	110,950	37,662	-
360	Miscellaneous Revenues	275,055	95,620	1,464
Total Operating Revenues:		11,278,977	4,034,901	420,139
<b>Operating Expenditures</b>				
510	General Government	1,065,891	738,772	-
520	Public Safety	2,179,961	2,179,961	-
530	Utilities	3,517,472	-	-
540	Transportation	644,374	189,764	405,882
550	Natural and Economic Environment	704,344	704,344	-
560	Social Services	2,407	2,407	-
570	Culture and Recreation	343,245	278,549	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		8,457,694	4,093,797	405,882
Net Operating Increase (Decrease):		2,821,283	(58,896)	14,257
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	1,442,352	1,533	1,462
391-393	Debt Proceeds	-	-	-
397	Transfers-In	350,128	202,128	70,000
Total Nonoperating Revenues:		1,792,480	203,661	71,462
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	845,428	-	-
594-595	Capital Expenditures	1,487,005	-	103,898
597	Transfers-Out	350,128	98,000	22,382
Total Nonoperating Expenditures:		2,682,561	98,000	126,280
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>1,931,202</b>	<b>46,765</b>	<b>(40,561)</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	5,766,348	748,960	121,133
5088000	Unreserved	5,683,206	343,291	-
<b>Total Ending Cash and Investments</b>		<b>11,449,554</b>	<b>1,092,251</b>	<b>121,133</b>

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

<b>106 BIG ROCK BALL PARK FUND</b>	<b>107 SENSITIVE AREAS MITIGATION FND</b>	<b>304 REAL ESTATE EXCISE TAX 1 FUND</b>	<b>305 REAL ESTATE EXCISE TAX 2 FUND</b>	<b>307 STREET CAPITAL IMPROVEMENT FND</b>	<b>308 PARKS CAPITAL IMPROVEMENT FUND</b>
3,717	38,288	414,352	411,016	660,107	641,737
-	-	-	-	-	-
-	-	-	-	64,383	-
-	-	263,157	263,157	-	-
-	-	-	-	-	-
-	-	97,793	97,793	370,295	14,512
13,486	-	-	-	125,667	93,000
-	-	-	-	-	-
52	131	1,552	1,374	2,677	2,404
<u>13,538</u>	<u>131</u>	<u>362,502</u>	<u>362,324</u>	<u>498,639</u>	<u>109,916</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
64,696	-	-	-	-	-
-	-	-	-	-	-
<u>64,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(51,158)</u>	<u>131</u>	<u>362,502</u>	<u>362,324</u>	<u>498,639</u>	<u>109,916</u>
-	-	-	-	-	-
-	-	-	-	-	-
78,000	-	-	-	-	-
<u>78,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	345,471	345,902	536,508	1,531
2,798	-	-	100,000	-	-
<u>2,798</u>	<u>-</u>	<u>345,471</u>	<u>445,902</u>	<u>536,508</u>	<u>1,531</u>
<b>24,044</b>	<b>131</b>	<b>17,031</b>	<b>(83,578)</b>	<b>(37,869)</b>	<b>108,385</b>
27,760	38,419	431,383	327,438	686,621	750,122
-	-	-	-	-	-
<u>27,760</u>	<u>38,419</u>	<u>431,383</u>	<u>327,438</u>	<u>686,621</u>	<u>750,122</u>

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

<b>401 WATER FUND</b>	<b>402 SEWER FUND</b>	<b>404 STORM DRAINAGE FUND</b>	<b>501 VEHICLE &amp; EQUIP MAINTENANCE</b>	<b>502 IT FUND</b>	<b>503 BUILDING MAINTENANCE FUND</b>
657,717	1,211,956	294,050	200,000	-	-
2,197,242	1,041,743	124,972	317,403	-	32,485
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	80,019	-	-	-
1,847,267	2,181,995	679,064	76,161	256,922	112,390
73,288	-	-	-	-	-
37,578	128,402	1,855	1,749	86	111
<u>1,958,133</u>	<u>2,310,397</u>	<u>760,938</u>	<u>77,910</u>	<u>257,008</u>	<u>112,501</u>
-	1,280	-	-	215,520	110,319
-	-	-	-	-	-
1,479,020	1,445,191	593,261	-	-	-
-	-	-	48,728	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,479,020</u>	<u>1,446,471</u>	<u>593,261</u>	<u>48,728</u>	<u>215,520</u>	<u>110,319</u>
<u>479,113</u>	<u>863,926</u>	<u>167,677</u>	<u>29,182</u>	<u>41,488</u>	<u>2,182</u>
143,780	1,293,686	1,891	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>143,780</u>	<u>1,293,686</u>	<u>1,891</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
279,543	565,885	-	-	-	-
24,647	96,916	-	31,884	-	248
43,365	50,709	32,874	-	-	-
<u>347,555</u>	<u>713,510</u>	<u>32,874</u>	<u>31,884</u>	<u>-</u>	<u>248</u>
<b>275,338</b>	<b>1,444,102</b>	<b>136,694</b>	<b>(2,702)</b>	<b>41,488</b>	<b>1,934</b>
668,240	1,487,837	278,435	200,000	-	-
2,462,058	2,209,968	277,280	314,701	41,488	34,419
<b>3,130,298</b>	<b>3,697,805</b>	<b>555,715</b>	<b>514,701</b>	<b>41,488</b>	<b>34,419</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, 2014**

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund
<b>Beginning Cash and Investments</b>				
30810	Reserved	6,354,239	989,112	101,890
30880	Unreserved	4,051,027	683,423	-
388 & 588	Prior Period Adjustments, Net	-	-	-
<b>Operating Revenues</b>				
310	Taxes	3,414,418	2,812,948	254,650
320	Licenses and Permits	242,621	235,432	7,190
330	Intergovernmental Revenues	1,418,791	207,740	354,403
340	Charges for Goods and Services	4,934,403	211,469	-
350	Fines and Penalties	102,948	30,760	-
360	Miscellaneous Revenues	261,902	78,052	1,000
Total Operating Revenues:		10,375,084	3,576,399	617,243
<b>Operating Expenditures</b>				
510	General Government	1,032,591	919,765	-
520	Public Safety	2,185,293	2,185,293	-
530	Utilities	3,301,827	-	-
540	Transportation	610,950	142,394	418,220
550	Natural and Economic Environment	719,785	719,785	-
560	Social Services	12,350	12,350	-
570	Culture and Recreation	416,036	317,936	-
Total Operating Expenditures:		8,278,832	4,297,522	418,220
Net Operating Increase (Decrease):		2,096,252	(721,124)	199,023
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	316,259	11,507	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	372,563	227,563	100,000
Total Nonoperating Revenues:		688,822	239,070	100,000
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	841,891	-	-
594-595	Capital Expenditures	2,521,927	-	208,353
597	Transfers-Out	372,563	145,000	30,867
Total Nonoperating Expenditures:		3,736,381	145,000	239,221
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>(951,307)</b>	<b>(627,054)</b>	<b>59,803</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	5,458,379	763,746	161,693
5088000	Unreserved	3,995,580	281,736	-
<b>Total Ending Cash and Investments</b>		<b>9,453,959</b>	<b>1,045,482</b>	<b>161,693</b>

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

<b>106 Big Rock Ball Park Fund</b>	<b>107 Sensitive Areas Mitigation</b>	<b>304 Real Estate Excise Tax 1</b>	<b>305 Real Estate Excise Tax 2</b>	<b>307 Street Capital Improvement</b>	<b>308 Parks Capital Improvement</b>
45,614	38,230	342,837	352,179	1,277,484	626,785
-	-	-	-	-	-
-	-	-	-	-	-
-	-	173,410	173,410	-	-
-	-	-	-	-	-
-	-	-	-	561,924	16,019
13,012	-	-	-	26,230	18,108
-	-	-	-	-	-
31	58	619	616	1,494	1,659
13,043	58	174,029	174,026	589,648	35,786
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
98,101	-	-	-	-	-
98,101	-	-	-	-	-
(85,058)	58	174,029	174,026	589,648	35,786
-	-	-	-	-	-
-	-	-	-	-	-
45,000	-	-	-	-	-
45,000	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	102,514	115,189	1,207,025	20,833
1,839	-	-	-	-	-
1,839	-	102,514	115,189	1,207,025	20,833
<b>(41,897)</b>	<b>58</b>	<b>71,515</b>	<b>58,837</b>	<b>(617,377)</b>	<b>14,953</b>
3,717	38,288	414,352	411,016	660,107	641,737
-	-	-	-	-	-
<b>3,717</b>	<b>38,288</b>	<b>414,352</b>	<b>411,016</b>	<b>660,107</b>	<b>641,737</b>

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

<b>401 Water Fund</b>	<b>402 Sewer Fund</b>	<b>404 Storm Drainage Fund</b>	<b>501 Vehicle &amp; Equipment Fund</b>	<b>503 Building Maintenance Fund</b>
644,821	1,456,611	278,676	200,000	-
2,143,467	759,662	81,967	345,374	37,135
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	236,885	41,821	-	-
1,673,069	2,094,191	656,580	133,613	108,133
72,189	-	-	-	-
31,295	145,098	1,128	809	43
1,776,552	2,476,173	699,529	134,422	108,176
-	-	-	-	112,826
-	-	-	-	-
1,347,685	1,359,586	594,556	-	-
-	-	-	50,336	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,347,685	1,359,586	594,556	50,336	112,826
428,867	1,116,587	104,973	84,086	(4,650)
35,145	253,623	7,684	8,300	-
-	-	-	-	-
-	-	-	-	-
35,145	253,623	7,684	8,300	-
-	-	-	-	-
273,467	568,424	-	-	-
56,642	691,013	-	120,357	-
67,232	73,346	54,279	-	-
397,341	1,332,783	54,279	120,357	-
<b>66,671</b>	<b>37,427</b>	<b>58,378</b>	<b>(27,971)</b>	<b>(4,650)</b>
657,717	1,211,956	294,050	200,000	-
2,197,242	1,041,743	124,972	317,403	32,485
<b>2,854,959</b>	<b>2,253,699</b>	<b>419,022</b>	<b>517,403</b>	<b>32,485</b>

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



**City of Duvall**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>633 TREASURER'S TRUST FUND</b>	<b>634 POLICE COALITION FUND</b>
308	Beginning Cash and Investments	250,718	6,807	243,911
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	287,619	229,996	57,623
510-570	Expenditures	81,408	-	81,408
580-590	Other Decreases and Financing Uses	232,143	232,143	-
	Net Increase (Decrease) in Cash and Investments:	(25,932)	(2,147)	(23,785)
508	Ending Cash and Investments	224,788	4,661	220,127

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

**City of Duvall**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2014**

		<b>Total for All Funds (Memo Only)</b>	<b>633 Treasurer's Trust Fund</b>	<b>634 Police Coalition Fund</b>
308	Beginning Cash and Investments	276,366	6,417	269,949
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	97,255	44,698	52,557
510-570	Expenditures	78,595	-	78,595
580-590	Other Decreases and Financing Uses	44,308	44,308	-
Net Increase (Decrease) in Cash and Investments:		(25,648)	390	(26,038)
508	Ending Cash and Investments	250,718	6,807	243,911

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Duvall was incorporated in 1913 and operates under the laws of the State of Washington applicable to a non-charter code city operating with a mayor-council form of government. The City is a general purpose local government providing public safety, street improvement, parks and recreation, and general administrative services. Additionally, the City of Duvall owns and operates water, sewer, 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 City. It accounts for all financial resources except those required or elected to be accounted for in another fund. A contingency fund is maintained for managerial purposes and is rolled into the General Fund for reporting.

**Special Revenue Funds**

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

**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. Separate managerial funds are maintained for their capital and debt activities and are rolled into the appropriate enterprise funds for reporting.

### Internal Service Funds

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

## FIDUCIARY FUND TYPES:

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

### Agency Fund

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

### **b. Basis of Accounting and Measurement Focus**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. 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 with the exception of the Fiduciary Funds and Agency Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund	Description	Final Appropriated Amounts	Actual Expenditure	Variance
001	General Fund	\$ 5,328,760.61	\$4,191,794.76	\$1,136,965.85
002	Contingency Fund	80,766.20	52,928.84	27,837.36
101	Street Fund	634,335.98	532,160.54	102,175.44
106	Big Rock Ball Park Maintenance Fund	93,816.94	67,494.30	26,322.64
107	Sensitive Areas Mitigation Fund	38,338.35	-	38,338.35
304	Real Estate Excise Tax Fund 1	649,752.00	345,470.45	304,281.55
305	Real Estate Excise Tax Fund 2	646,415.60	445,900.80	200,514.80
307	Street Capital Improvement Fund	1,485,578.06	536,507.94	949,070.12
308	Capital Improvement Project - Parks	847,861.06	1,531.21	846,329.85
401	Water Fund	4,224,093.54	1,544,769.86	2,679,323.68
402	Sewer Fund	3,705,574.69	1,788,054.90	1,917,519.79
404	Storm Drainage Fund	1,167,563.36	625,999.49	541,563.87
407	Water Capital Improvement Fund	829,848.55	281,079.25	548,769.30
408	Sewer Capital Improvement Fund	2,656,967.01	371,500.17	2,285,466.84
409	Storm Drain Capital Improvement Fund	100,476.92	135.42	100,341.50

410	Bond Redemption Fund	461,188.13	444,335.00	16,853.13
411	Bond Reserve Fund	262,250.00	400.00	261,850.29
501	Equipment Fund	594,363.50	80,611.94	513,751.56
502	IT Fund	256,921.00	215,519.71	41,401.29
503	Building Maintenance Fund	<u>144,894.94</u>	<u>110,566.82</u>	<u>34,328.12</u>
	Total	<u>\$ 24,209,766.73</u>	<u>\$11,636,761.40</u>	<u>\$12,573,005.33</u>

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 Council. The adopted budget includes interfund activity for managerial funds that were consolidated and eliminated for financial reporting.

**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 two 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. Other Financing Sources or Uses**

Transactions between funds within the city organization for goods and services are treated as if transacted with external organizations and accounted for as revenue to the selling fund and expenditures to the purchasing fund.

Transfers to support the operations of other funds are recorded as "Operating Transfers" and inter-fund loans, and classified with "Other Financing Sources or Uses."

The City entered into a 60 month operating lease for four Xerox copiers beginning in January 2013 with a minimum monthly payment of \$1,000.

**i. Risk Management**

***The City of Duvall was a member of Cities Insurance Association of Washington (CIAW) from January 1, 2015 through November 30, 2015.*** Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The **CIAW** program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2015, there are 210 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,140,107.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

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

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

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

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2015, were \$627,702.49.

**The City withdrew from CIAW December 1, 2015 and became 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 179 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, 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. (1)

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.

**(1) Deductibles:**

- a. Liability = \$0;
- b. Automobile = \$1,000 per occurrence;
- c. Property = \$5,000 per occurrence;
- d. Boiler and Machinery (Equipment Breakdown) = \$10,000 per occurrence

WCIA financial statements may be found at <http://www.wciapool.org/communications/annual-reports>

**j. 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 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:

Contingency Fund per council resolution	\$ 28,015
All expenditures require prior approval of the City Council by Ordinance	
Fund Balance Reserve Requirements per council resolution	2,758,607
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.	
Special Revenue Funds	187,312
Streets, Parks, and Sensitive Area mitigation	
Capital Improvement Funds	2,195,564
Real Estate Excise taxes, Parks and Roads Impact fees	
DOE Loan Reserves	335,000
Water/Sewer Revenue Bond Reserves	261,850
Loan/Bond Reserves set by loan terms and bond covenants	
Total	<u>\$ 5,766,348</u>

Duvall's highest level of decision-making authority is established via Ordinance. An Ordinance is required to amend the City's reservations of fund balance.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is 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 city's name and are presented at original cost.

Investments by type at December 31, 2015 are as follows:

State Treasurer's Local Investment Pool (L.G.I.P.)	\$7,111,965
Bank of America Market Rate Savings	1,042,927
US Government Securities, US Bank	<u>3,010,034</u>
Total Deposits and Investments at original cost	<u>\$11,164,926</u>



### 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 daily.

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

The city's regular levy for 2015 was \$1.38559 per \$1,000 on an assessed valuation of \$969,374,013 for a total regular levy of \$1,343,159.

### NOTE 4 - DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-term Liabilities (09) provides more details of the outstanding debt and liability of the city and summarizes the city's debt transactions for the year ended December 31, 2015.

The debt service requirements for revenue bonds and utility loans are as follows:

	Principal	Interest	Total
2016	\$ 749,963	\$ 41,133	\$ 791,096
2017	766,564	26,292	792,856
2018	457,647	15,283	472,930
2019	324,264	10,291	334,555
2020	325,889	8,666	334,555
2021-2025	1,486,832	18,667	1,505,498
<b>Total</b>	<b>\$ 4,111,160</b>	<b>\$ 120,331</b>	<b>\$ 4,231,491</b>

As of 12/31/2014, the City of Duvall has a Standard and Poors revenue bond rating of AA/Stable.

### NOTE 5 - PENSION PLANS

#### 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) or the Law Enforcement Officers' And Fire Fighters' Retirement System (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 <http://www.drs.wa.gov>.

At June 30, 2015 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1 UAAL	.017439%	\$ 912,222
PERS 2 and 3	.011526%	\$ 804,688
LEOFF 2	.039985%	\$ (410,966)

#### LEOFF Plan 2

The City 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 – OTHER DISCLOSURES

Prior Period Adjustment of \$64,383.05 for a refund of overpaid sales tax from the Cherry Valley Wall project in 2014. This transaction occurred in fund 307 – Street Capital Improvement.

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.

Sale of city-owned property. On 10/13/2015, the City of Duvall sold the city-owned parcel of land and buildings comprising the Valley Technical Center (VTC) for \$1,261,000. This transaction took place in the Sewer utility fund. The City intends to reinvest the proceeds from this sale into capital improvements to the Sewer treatment trains at the treatment plant over the next twenty-four months. This is the first of two purchase and sale transactions of adjoining properties.

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 1(i). In the opinion of management, the City's insurance policies and insurance reserves are adequate to pay all known or pending claims.

#### Subsequent events:

- 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.
- On February 2, 2016 the City of Duvall sold its last remaining surplus parcel related to the Valley Technical Center (VTC) for \$370,000. Proceeds were deposited in the Sewer utility fund which owned the property. The City intends to reinvest the proceeds from this sale into capital improvements to the Sewer treatment trains at the treatment plant over the next twenty-four months. This is the second of two purchase and sale transactions of adjoining properties.

- Effective April 30, 2016 the City of Duvall transferred fiscal agent/administrative duties for the Coalition of Small Police Agencies (CSPA) to the City of Lake Forest Park via Resolution 16-06. Assets transferred to Lake Forest Park totaled \$195,941.50.
- On November 8, 2016 the voters of the City of Duvall approved Proposition 1 authorizing a levy lid lift to increase the City's regular property tax levy to (in order of priority): finance improvements to the Big Rock Ballfield; employ a full-time school resource officer; and make strategic improvements to the City's information technology system.
- 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.

NOTES TO FINANCIAL STATEMENTS 2014  
CITY OF DUVALL

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The city reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting Systems (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 Duvall was incorporated in 1913 and operates under the laws of the State of Washington applicable to a non-charter code city. It is a general purpose government providing public safety, street improvement, parks and recreation, and general administrative services. In addition, the City of Duvall owns and operates water, sewer and storm water utility systems. The City uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

**a. Fund Accounting**

The accounts of the City 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'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:

**GOVERNMENTAL FUND TYPES:**

General Fund

This fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund. A contingency fund and hydrant fund are maintained for managerial purposes and are rolled into the General Fund for reporting.

Special Revenue Funds

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

Capital Projects Funds

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

**PROPRIETARY FUND TYPES:**

Enterprise Funds

These funds account for operations that provide services to the general public and are supported primarily through user charges. Separate managerial funds are maintained for their capital and debt activities and are rolled into the appropriate enterprise funds for reporting.

Internal Service Funds

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

## FIDUCIARY FUND TYPES:

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

### Agency Fund

These funds are used to account assets that the City holds for others in an agency capacity.

## 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 budget appropriations as required by state law.

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.

Purchases of capital assets are expended 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 adopts annual appropriated budgets for all funds with the exception of the Fiduciary Funds and Agency Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund	Description	Final Appropriated	Actual	Variance
		Amounts	Expenditure	
001	General Fund	\$ 5,837,971.11	\$ 4,442,521.70	\$ 1,395,449.41
002	Contingency Fund	184,103.85	103,541.99	80,561.86
101	Street Fund	811,330.06	657,440.48	153,889.58
106	Big Rock Ball Park Maintenance Fund	104,714.26	99,940.09	4,774.17
107	Sensitive Areas Mitigation Fund	38,279.87	-	38,279.87
304	Real Estate Excise Tax Fund 1	478,337.31	102,514.40	375,822.91
305	Real Estate Excise Tax Fund 2	487,878.64	115,188.85	372,689.79
307	Street Capital Improvement Fund	2,391,784.30	1,207,025.18	1,184,759.12
308	Capital Improvement Project - Parks	765,784.59	20,833.42	744,951.17
401	Water Fund	3,804,031.67	1,425,379.40	2,378,652.27
402	Sewer Fund	3,833,334.34	2,345,559.15	1,487,775.19
404	Storm Drainage Fund	1,153,131.74	648,826.26	504,305.48
407	Water Capital Improvement Fund	972,448.57	319,307.60	653,140.97
408	Sewer Capital Improvement Fund	947,244.15	346,251.91	600,992.24
409	Storm Drain Capital Improvement Fund	22,733.86	8.19	22,725.67
410	Bond Redemption Fund	456,926.97	439,528.29	17,398.68
411	Bond Reserve Fund	262,250.00	400.00	261,850.00
501	Equipment Fund	739,666.38	170,693.47	568,972.91
503	Building Maintenance Fund	145,288.02	112,825.55	32,462.47
	Total	\$ 23,437,239.69	\$ 12,557,785.93	\$ 10,879,453.76

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. The adopted budget includes interfund activity for managerial funds that were consolidated and eliminated for financial reporting.

**d. Cash**

It is the City'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's deposits and certificate of deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

**f. Investments**

See Note 3.

**g. Derivatives and Similar Transactions**

The city did not invest in any such products during the fiscal year.

**h. Capital Assets**

Capital assets are long-lived assets of the city and are recorded as expenditures when purchased.

**i. Compensated Absences**

The amount of vacation leave that may be accumulated varies depending on bargaining unit or if an employee is non-represented.

1. Non represented employees may accumulate up to a two-year maximum providing employees with over 16 years of employment to accumulate a maximum of 400 hours.
2. Police Officers Guild employees may accumulate a maximum of 240 hours.
3. Public Works Union employees may accumulate 200 hours.

The amount of sick leave that may be accumulated also varies depending on bargaining unit or if an employee is non-represented. Upon separation of retirement, any unused sick leave is paid at one-quarter of the final pay rate 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 one-quarter of current pay rate.
2. Police Officers may accumulate up to 960 hours. At the end of each year, guild employees may buy out sick year in excess of 480 hours, payable at one-quarter of the current 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 one-quarter of the final pay rate.

The amount of comp time that may be accumulated varies depending on bargaining unit or if an employee is non-represented.

1. Non represented employees may accumulate up to 80 hours.
2. Police Officers Guild has no maximum limit on accrual of comp time.
3. Public Works Union employees may accumulate up to 100 hours.

The City's total liability for compensated absences as of 12/31/2014 is \$311,820.90.

**j. Long-Term Debt**

See Note 6.

**k. Other Financing Sources or Uses**

Transactions between funds within the city organization for goods and services are treated as if transacted with external organizations and accounted for as revenue to the selling fund and expenditures to the purchasing fund.

Transfers to support the operations of other funds are recorded as "Operating Transfers" and inter-fund loans, and classified with "Other Financing Sources or Uses."

The City entered into a 60 month Finance Lease for four Xerox copiers beginning in January 2013 with a minimum monthly payment of \$1,000.

**l. Risk Management**

The City is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program.

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim, while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a



cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,259,396 to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500 (\$10,000 for Pumps & Motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014 the Board passed a resolution changing the CIAW's renewal date from September 1, to December 1<sup>st</sup> beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year will begin on December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended December 1, 2014, were \$1,817,654.59.

**m. Reserved Fund Balance**

Fund balances not available for spending due to restrictions imposed on them by external parties and/or due to internal commitments are reported as reserved. At the end of 2014, the City had \$5,458,379 set aside as reserved fund balance as follows:

Contingency Fund per council resolution	\$ 80,716
Fund Balance Reserve Requirements per council resolution	2,449,903
Special Revenue Funds	203,698
Capital Improvement Funds	2,127,212
DOE Loan Reserves	335,000
Water/Sewer Revenue Bond Reserves	261,850
Total	<u>\$ 5,458,379</u>

**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions and there have been no expenditures exceeding legal appropriations in any of the funds of the city.



### **NOTE 3 - INVESTMENTS**

The city's investments are insured, registered or held by the city or its agent in the city's name and are presented at cost.

Investments by type at December 31, 2014 are as follows:

Investment in State Treasurer's Local Investment Pool	\$5,837,482
Investment in Bank of America Market Rate Savings	211,591
Investment in US Gov Agency Securities, US Bank	<u>3,007,200</u>
Total Deposits and Investments at cost	\$9,056,273

### **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 daily.

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

The city's regular levy for 2014 was \$1.60 per \$1,000 on an assessed valuation of \$792,904,866 for a total regular levy of \$1,268,648.

### **NOTE 5 - INTERFUND LOANS AND ADVANCES**

The City of Duvall had no inter-fund loan activity during 2014.

### **NOTE 6 – DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Long-term Liabilities (09) provides more details of the outstanding debt and liability of the city and summarizes the city's debt transactions for 2014. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

Year	Revenue Bonds	Public Works		Total Debt
		Trust Fund Utility Loans	State DOE Loans for Sewer Plant	
2014	438,631	67,808	334,555	840,994
2015	443,485	66,659	334,555	844,699
2016	440,705	15,836	334,555	791,096
2017	442,620	15,680	334,555	792,855
2018	138,375	-	334,555	472,930
2019	-	-	334,555	334,555
2020-2024	-	-	1,672,776	1,672,776
2025	-	-	167,278	167,278
				-
Total	\$ 1,903,816	\$ 165,983	\$ 3,847,384	\$ 5,917,183

## **7 - PENSION PLANS**

Substantially all City full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) or the Law Enforcement Officers' And Fire Fighters' Retirement System (LEOFF) administered by the 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's financial statements. Contributions to the systems by both employees 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  
P.O. Box 48380  
Olympia, WA 98504-8380

**City of Duvall**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

<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>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	Revenue Debt, Sewer Refunding Bonds	12/1/2018	990,000	-	210,000	780,000
252.11	Revenue Debt, Water Bonds	8/1/2016	395,000	-	195,000	200,000
259.12	General Obligation Compensated Absences		186,404	-	1,029	185,375
259.12	Revenue Debt, Compensated Absences		125,417	1,208	-	126,625
263.82	Revenue Debt, PWTF for water tank	6/30/2015	49,671	-	49,671	0
263.82	Revenue Debt, PWTF for water main	6/30/2017	46,578	-	15,525	31,053
263.82	Revenue Debt, SRF for Wastewater Plant	6/20/2025	3,417,954	-	317,845	3,100,109
264.30	Net Pension Liability		-	1,716,910	-	1,716,910
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>5,211,024</b>	<b>1,718,118</b>	<b>789,070</b>	<b>6,140,073</b>
<b>Total Liabilities:</b>			<b>5,211,024</b>	<b>1,718,118</b>	<b>789,070</b>	<b>6,140,073</b>

**City of Duvall**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2014**

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>General Obligation Debt/Liabilities</b>						
259.11	General Obligation Compensated Absences		198,377	-	11,973	186,404
	<b>Total General Obligation Debt/Liabilities:</b>		<b>198,377</b>	<b>-</b>	<b>11,973</b>	<b>186,404</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	Revenue Debt, Sewer Refunding Bonds	12/1/2018	1,200,000	-	210,000	990,000
252.11	Revenue Debt, Water Bonds	8/1/2016	575,000	-	180,000	395,000
259.12	Revenue Debt Compensated Absences		128,536	-	3,119	125,417
263.82	Revenue Debt, PWTF for water tank	6/30/2015	99,346	-	49,675	49,671
263.82	Revenue Debt, PWTF for water main	6/30/2017	62,103	-	15,525	46,578
263.82	Revenue Debt, SRF for Wastewater Plant	6/20/2025	3,734,214	-	316,260	3,417,954
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>5,799,199</b>	<b>-</b>	<b>774,579</b>	<b>5,024,620</b>
	<b>Total Liabilities:</b>		<b>5,997,576</b>	<b>-</b>	<b>786,552</b>	<b>5,211,024</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.

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