



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Battle Ground
Clark County

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

Published June 14, 2018

Report No. 1021543





Office of the Washington State Auditor

Pat McCarthy

June 14, 2018

Mayor and City Council
City of Battle Ground
Battle Ground, Washington

Report on Financial Statements

Please find attached our report on the City of Battle Ground'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

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.....	6
Financial Section.....	9
About the State Auditor's Office.....	77

**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 Battle Ground
Clark County
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Battle Ground
Battle Ground, 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Battle Ground, Clark County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 6, 2018.

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.



Pat McCarthy

State Auditor

Olympia, WA

June 6, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Battle Ground Clark County January 1, 2017 through December 31, 2017

Mayor and City Council
City of Battle Ground
Battle Ground, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Battle Ground, Clark County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Battle Ground, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2018 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.

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

June 6, 2018

FINANCIAL SECTION

City of Battle Ground Clark County January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds - 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2017

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities – 2017

Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual
– General Fund

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits Schedule of Funding Progress – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2017

Schedule of Proportionate Share of Net Pension Liability – LEOFF 1 – 2017

Schedule of Proportionate Share of Net Pension Liability – LEOFF 2 – 2017

Schedule of Employer Contributions – PERS 1 – 2017

Schedule of Employer Contributions – PERS 2/3 – 2017

Schedule of Employer Contributions – LEOFF 2 – 2017

Notes to Required Supplemental Information – Pension – 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Battle Ground's (city) discussion and analysis is a narrative overview of the city's financial activities for the fiscal year ending December 31, 2017. The information presented here should be read in conjunction with the financial statements and the notes to the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The city's overall financial position improved in 2017 as compared to 2016. The increase in the change in total net position was 8.5%.
- Assets of the city exceeded its liabilities at December 31, 2017 by \$124.6 million. Of this net position amount, net investment in capital assets is \$94.6 million. Restricted net position is \$7.1 million and earmarked for debt service, capital projects and pension. Unrestricted net position is \$22.9 million and used to meet the city's ongoing obligations to citizens and creditors.
- As of December 31, 2017, the city's total governmental funds reported combined ending fund balances of \$11.8 million. \$5.8 million is restricted for capital purposes, drug investigation, and tourist promotion. \$6.1 million is unrestricted (includes committed, assigned, and unassigned). Unrestricted fund balance is available for spending at the city's discretion.
- Unassigned fund balance in the general fund was \$4.9 million at December 31, 2017. This fund balance increased \$3.2 million from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the city's basic financial statements and is intended to assist users in interpretation of the basic financial statements. The basic financial statements are consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements present the city's financial condition in a manner similar to private sector statements. These statements distinguish functions of the city that are primarily supported by taxes and intergovernmental revenues ("governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities").

Governmental activities of the city include a full range of local government services provided to the public, such as law enforcement and public safety; fire protection; road construction and maintenance; community planning and development; parks and recreation facilities; and other community services. These activities are primarily supported by taxes, licenses and permits, fines and forfeitures, and charges for general governmental services.

Business-type activities of the city are mainly supported by user fees and charges. The business-type activities of the city include storm water drainage, water, and sewer utilities and internal services for fleet administration and technology.

Statement of Net Position This statement presents financial information on all of the city's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the city is improving or deteriorating.

Statement of Activities

This statement presents information designed on how the city's net position changed during the fiscal year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. Revenue generated by the specific functions (charges for services, grants, and contributions) is compared to expenses for those functions to show the degree to which each function supports itself or relies on taxes and other general funding sources for support. All changes in net position are reported using the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of the timing of related cash flows. Items such as, but not limited to, uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses, even though no cash has changed hands.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions, or limitations. The city, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. All of the city's funds are divided into two categories: governmental funds or proprietary funds.

Governmental Funds

Governmental funds represent most of the city's basic services such as public safety, parks, streets and many other general administrative type services. The city maintains fifteen individual governmental funds. The general fund is a major fund and, for reporting purposes, includes the general, parks, insurance reserve, LEOFF I, and economic stabilization funds. The capital projects fund is reported as a major fund. Financial data for the remaining governmental funds are combined into a single, aggregated presentation. These other nonmajor governmental funds include special revenue funds, debt service fund and other capital funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. Such information is useful in evaluating a government's near-term financing requirements in comparison to resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. This give readers a better understanding of the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, facilitating this comparison.

The city maintains budgetary controls over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level for all funds in accordance with state law. Budgetary comparison schedules are presented in this report following the combining statements of other governmental funds.

Proprietary Funds

Proprietary funds account for business-type activities. Business-type activities provide specific goods or services to a group of customers paid for by fees charged to those customers. The city has two types of proprietary fund: enterprise funds and internal service funds. Enterprise funds account for goods and services provided to citizens and the community. Internal service funds account for goods and services provided internally to various city departments. The same basis of accounting is used for proprietary funds in both the government-wide statements and the individual fund statements.

Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. Fund statements provide more detail than is reported in the government-wide statements. The city uses enterprise funds to account for storm water drainage, water, and sewer utilities.

Internal service funds report activities that provide supplies and services for city programs. Internal service funds account for fleet administration and technology. Given that these services benefit governmental operations more than business-type functions, internal service funds are included within governmental activities in the government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

Other Information

This report also presents certain required supplementary information regarding pension related data and postemployment medical benefits to uniformed personnel hired before October 1, 1977. Required supplementary information is located immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The *Statement of Net Position* can serve as a useful indicator of the city's financial position. The city's total net position was \$124.6 million at December 31, 2017 as compared to \$114.9 at December 31, 2016. The following is a condensed version of the *Government-wide Statement of Net Position*.

Net position						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 15,328,753	\$ 12,214,358	\$ 21,218,973	\$ 19,159,258	\$ 36,547,726	\$ 31,373,616
Capital assets (net of depr)	54,939,744	50,763,389	59,284,856	58,171,629	114,224,600	108,935,018
Total assets	70,268,497	62,977,747	80,503,829	77,330,887	150,772,326	140,308,634
Deferred Outflow of Resources	453,846	729,472	98,829	142,259	552,675	871,731
Liabilities						
Current	1,503,210	1,829,821	267,622	507,178	1,770,832	2,336,999
Noncurrent	14,323,030	13,805,717	9,861,434	9,996,270	24,184,464	23,801,987
Total liabilities	15,826,240	15,635,538	10,129,056	10,503,448	25,955,296	26,138,986
Deferred Inflow of Resources	615,729	85,501	110,315	24,556	726,044	110,057
Net position						
Net investment in capital assets	44,439,495	39,534,273	50,173,640	48,777,185	94,613,135	88,311,458
Restricted	6,801,503	6,159,520	297,778	301,875	7,099,281	6,461,395
Unrestricted	3,039,376	2,292,387	19,891,869	17,866,082	22,931,245	20,158,469
Total net position	\$ 54,280,374	\$ 47,986,180	\$ 70,363,287	\$ 66,945,142	\$ 124,643,661	\$ 114,931,322

At December 31, 2017, the city reports positive balances in all three categories of net position, for the government as a whole, as well as for separate governmental and business-type activities.

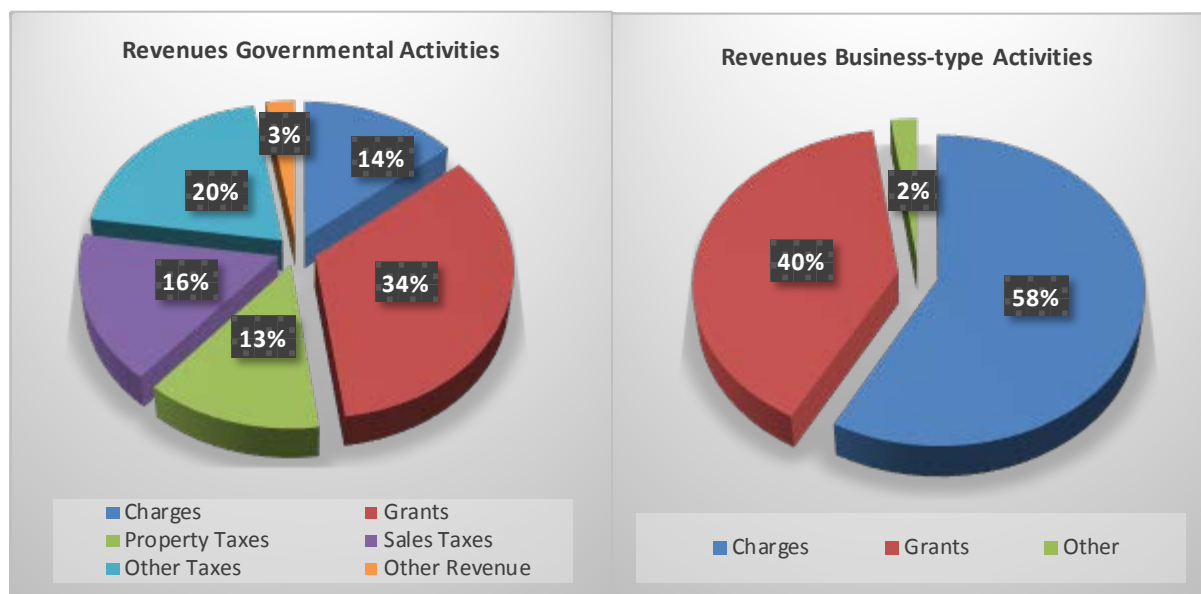
The largest portion (76%) of the city's net position reflects its investment in capital, less any related outstanding debt used to acquire those assets. The city's capital assets provide services to citizens. Consequently, these assets are not available for future spending. At the end of the fiscal year, the city had \$5.84 million in net position restricted for capital or capital related debt. Of these restricted assets, \$297,778 is in the Sewer Fund for debt service, \$924 in the Capital Projects Fund, \$2,770,053 in the Transportation Impact Fee Fund, \$933,630 in the Park Impact Fee Fund, \$1,689,122 in the Real Estate Excise Tax Fund, and \$150,274 in the Fire Impact Fee Fund. In addition, the city had \$68,921 for drug investigations and \$174,624 for tourist promotion in restricted funds. The remaining unrestricted balance of \$22,931,245 represents the amount that may be used to meet ongoing city obligations.

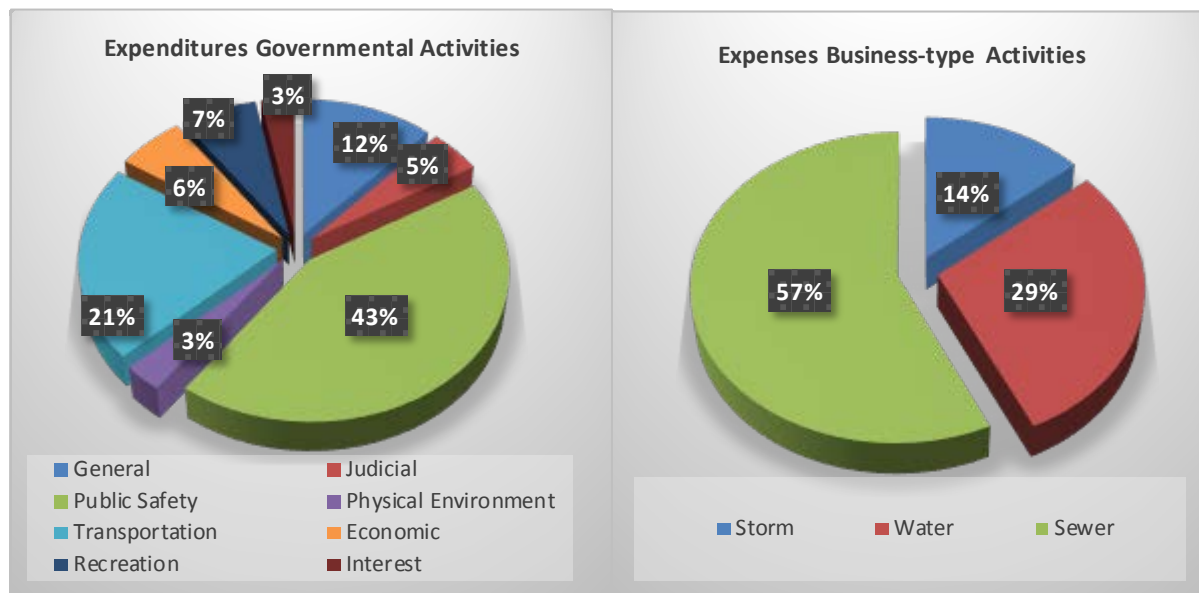
Statement of Activities

The *Statement of Activities* reports the change in net position for the fiscal year. At December 31, 2017, total ending net position increased by \$9.7 million. Business-type funds increased by \$3.4 million primarily due to infrastructure contributions by developers. Net position of governmental activities increased by \$6.3 million due to increased building activity and consumer spending.

The full statement is a tabular depiction of the relationship of revenues and expenses for the city's governmental activities and proprietary funds. The graphs that follow illustrate the sources of revenue and the balance of governmental versus business type expenses for 2017.

Statement of Activities						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	\$ 3,032,685	\$ 3,556,063	\$ 7,765,560	\$ 7,104,555	\$ 10,798,245	\$ 10,660,618
Operating Grants and Contributions	1,062,301	1,104,258	-	-	1,062,301	1,104,258
Capital Grants and Contributions	6,339,352	528,232	5,330,573	2,598,683	11,669,925	3,126,915
General revenues						
Property taxes	2,902,251	2,816,320	-	-	2,902,251	2,816,320
Sales taxes	3,521,945	2,949,812	-	-	3,521,945	2,949,812
Other taxes	4,374,540	4,292,331	-	-	4,374,540	4,292,331
Interest income	98,941	72,726	169,175	128,293	268,116	201,019
Other revenues	466,640	445,489	133,928	142,170	600,568	587,659
Total Revenues	21,798,655	15,765,231	13,399,236	9,973,701	35,197,891	25,738,932
Expenses						
General government	1,818,329	1,884,953	-	-	1,818,329	1,884,953
Judicial	730,455	569,422	-	-	730,455	569,422
Public Safety	6,766,840	4,303,774	-	-	6,766,840	4,303,774
Physical environment	457,270	2,325,492	-	-	457,270	2,325,492
Transportation	3,279,449	2,871,534	-	-	3,279,449	2,871,534
Economic environment	941,778	849,069	-	-	941,778	849,069
Culture and recreation	1,049,993	1,027,123	-	-	1,049,993	1,027,123
Storm Drainage	-	-	1,380,733	1,158,748	1,380,733	1,158,748
Water	-	-	2,914,232	2,691,560	2,914,232	2,691,560
Sewer	-	-	5,686,127	5,181,762	5,686,127	5,181,762
Interest on long term debt	460,347	477,416	-	-	460,347	477,416
Total Expenses	15,504,461	14,308,783	9,981,092	9,032,070	25,485,553	23,340,853
Change in Net Position	6,294,194	1,456,448	3,418,144	941,631	9,712,338	2,398,079
Net Position - beginning	47,986,180	46,529,732	66,945,143	66,003,511	114,931,323	112,533,243
Net Position - ending	\$ 54,280,374	\$ 47,986,180	\$ 70,363,287	\$ 66,945,143	\$ 124,643,661	\$ 114,931,323



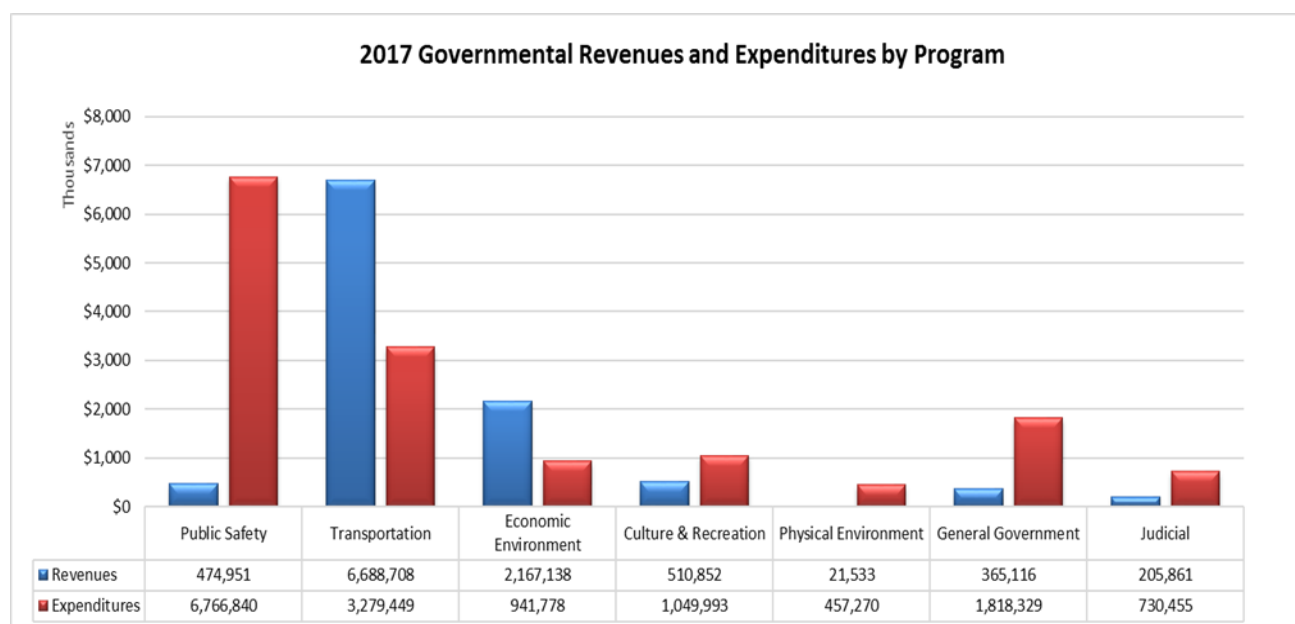


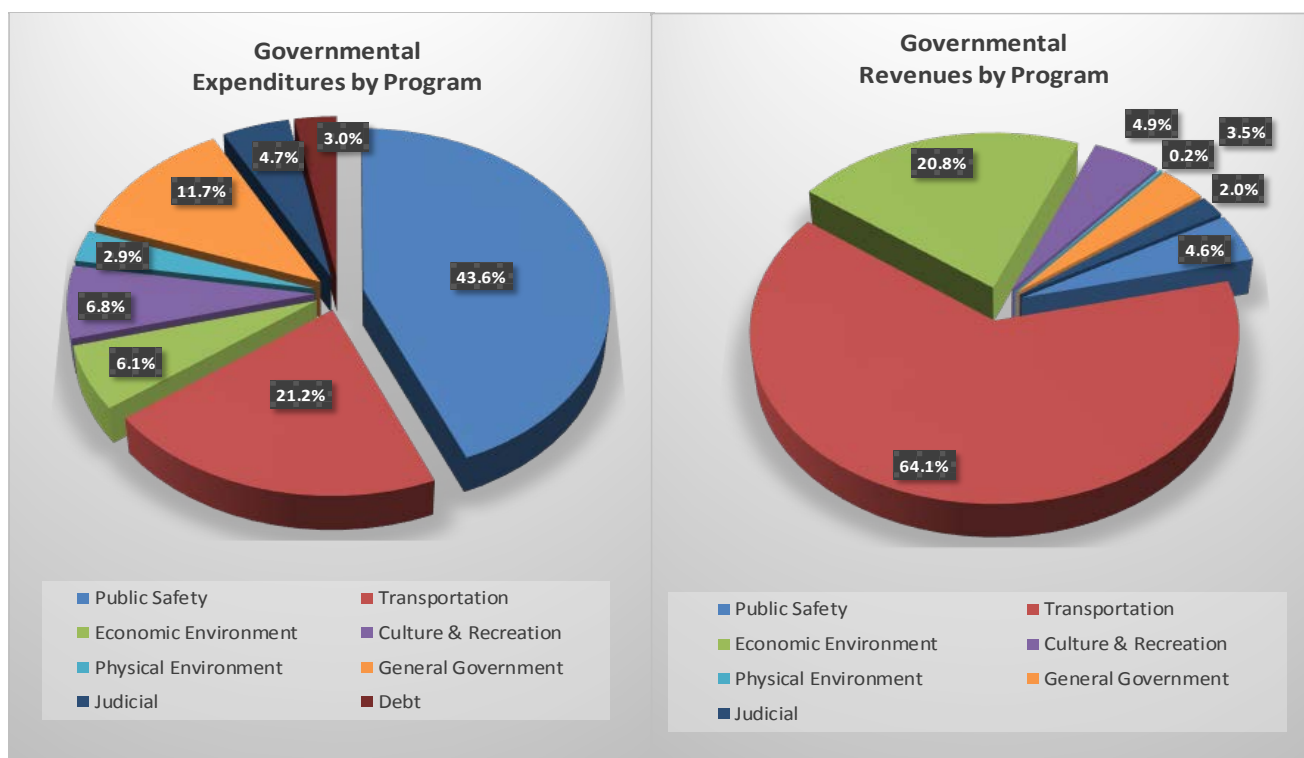
Governmental Activity Analysis

The City of Battle Ground's property tax rate decreased slightly due to increasing assessed valuations. The tax levy for 2017 tax collections increased \$85,777 over the prior levy due to new construction. Sales tax collected increased \$572,132 (19.4%) from the prior year due to continuing improvement in the local economy.

Revenues tied to residential development and home purchases continued in 2017. However, the timing of permits and a decline in multi-family housing contributed to a decrease in impact fee revenues. Transportation impact fees decreased by \$81,089 and park impact fees decreased by \$474,674 from the prior year. Real estate excise taxes increased by \$155,456 over the prior year.

Governmental activities expenses increased \$1,195,678 (8.4%) over the prior year. After many years of cost and staff reductions and deferral of street, parks, and facility maintenance, efforts are underway to prioritize and fund infrastructure and facility improvements.

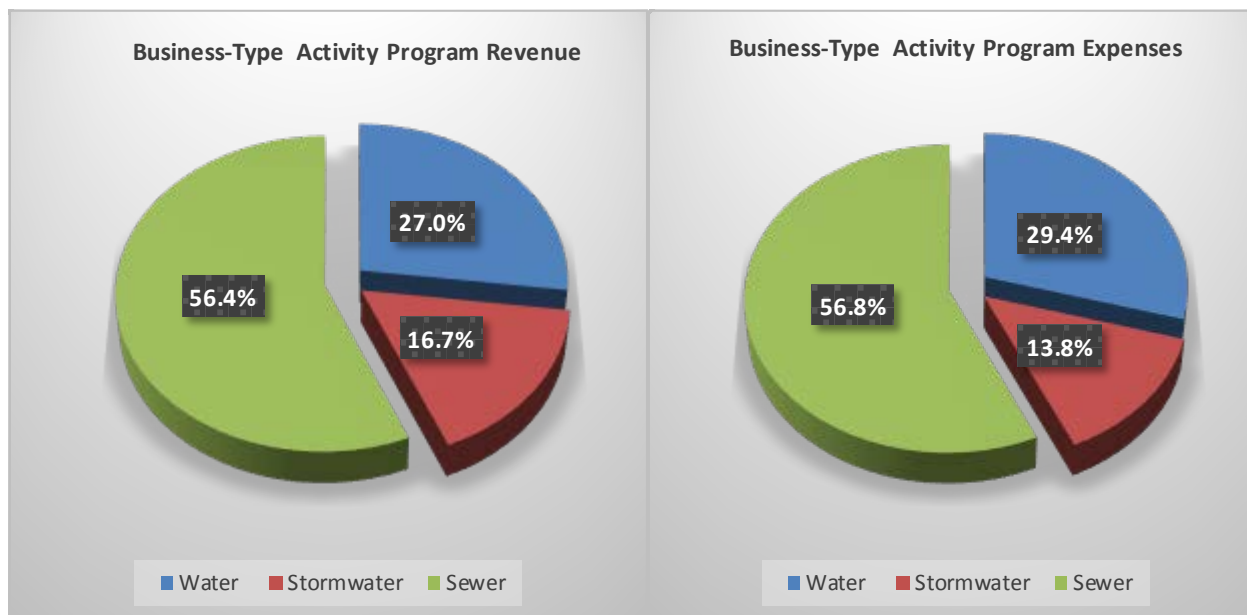




Business-Type Activities Analysis

The financial position of the city's business-type funds consists of the storm drainage, water, and sewer funds. The storm drainage fund had an overall increase in net position of \$844,125 (8.1%) primarily due to capital contributions of \$997,263. The sewer fund had an overall increase in net position of \$1,842,508 (5.5%). This increase was due to capital contributions of \$3.5 million. The water fund had an increase in net position of \$662,560 (2.9%) due to capital contributions of \$803,492.

The following graphs illustrate the revenues and expenses of the city's enterprise funds.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds Analysis

As noted earlier, the City of Battle Ground uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the city's governmental funds is to provide information on near-term inflow, outflows, and balances of spendable resources. Such information is useful in assessing the city's financing requirements. Unassigned fund balance may serve as a useful measure of the city's net resources available for discretionary use as these resources represent the portion of fund balance which has not yet been limited as to use for a particular purpose by either an external party, the city itself, or a group or individual that has been delegated authority to assign resources for specific purposes by city council.

At December 31, 2017, the city's governmental funds reported combined fund balances of \$11.8 million, an increase of \$1.2 million over 2016. \$4.9 million of this amount constitutes unassigned fund balance, which is available for spending at the city's discretion. The remainder of the fund balance is either: 1) restricted for particular purposes (\$5,787,548), 2) committed for particular purposes (\$382,871), or 3) assigned for particular purposes (\$737,521).

The general fund is the chief operating fund of the City of Battle Ground. At the end of the fiscal year, unassigned fund balance of the general fund was \$4,934,676, while total fund balance increased to \$5,801,384. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to general fund expenditures. Unassigned fund balance represents approximately 40.9% of total general fund expenditures, while total fund balance represents approximately 48.1% of that same amount.

Business-Type Funds Analysis

The city's proprietary fund financial statements provide the same type of information found in the government-wide financial statements for business-type activities, although in more detail. Internal service funds, although proprietary, are not included within business-type activities.

Proprietary funds are those funds that account for government operations where the intent is for the costs to be primarily paid for by user charges. Enterprise funds are those funds that provide services primarily to external users, and internal service funds provide their services primarily within the city, or to other governmental units. The city has three business-type funds, all of which are enterprise funds.

The water fund and the sewer fund are the two largest enterprise funds of the city. The water fund accounts for 34%, the sewer fund 50%, and the storm drainage fund 16% of the total net position for enterprise funds. The water fund had total net position at year-end of \$23.5 million, the sewer fund \$35.3 million, and the storm drainage fund \$11.2 million. The utility funds each showed an operating loss, primarily for depreciation expense. After capital contributions and interest earnings, all enterprise funds reported an increase in net position.

Total water fund operating revenues for 2017 were \$2.73 million as compared to \$2.51 million in 2016. Total operating expenses were \$2.83 million as compared to \$2.6 million in 2016. This increase is primarily due to increases in depreciation expense, equipment purchases, and personnel costs.

Total sewer fund operating revenues for 2017 were \$3.83 million as compared to \$3.66 million in 2016. Total operating expenses were \$5.49 million as compared to \$4.98 million in 2016. This increase is primarily due to increases in depreciation expense, intergovernmental services, and personnel costs.

Total storm drainage operating revenues for 2017 were \$1.21 million as compared to \$1.04 million in 2016. Total operating expenses were \$1.38 million as compared to \$1.16 million in 2016. This increase is primarily due to increases in depreciation expense, equipment purchases, and personnel costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The city appropriated funds through the adoption of the 2017-2018 biennial budget. The following table shows the changes between the original and the final biennial general fund budget (includes parks and reserve funds), and the variances between the final budget to actual revenues and expenditures:

	Original 2017-2018 budget	Final 2017-2018 Budget	Change Positive (Negative)	Actual at 12/31/2017	Variance Positive (Negative)	Percentage of Actual to Budget
Revenues:						
Taxes	\$ 18,221,125	\$ 18,221,125	\$ -	\$ 9,625,904	\$ (8,595,221)	53%
License and permits	2,345,556	2,345,556	-	963,119	(1,382,437)	41%
Intergovernmental	1,149,268	1,164,268	15,000	710,803	(453,465)	61%
Charges for services	3,168,747	3,168,747	-	1,616,391	(1,552,356)	51%
Other revenues	938,100	938,100	-	679,144	(258,956)	72%
Total revenues	25,822,796	25,837,796	15,000	13,595,361	(12,242,435)	53%
Expenditures:						
General government	8,221,653	8,433,876	(212,223)	4,561,196	3,872,680	54%
Security/Persons and property	15,396,791	15,653,199	(256,408)	7,448,281	8,204,918	48%
All other expenditures	1,642,192	1,642,192	-	46,988	1,595,204	3%
Total Expenditures	25,260,636	25,729,267	(468,631)	12,056,465	13,672,802	47%
Excess (Deficiency of Revenues)						
Over (under) expenditures	562,160	108,529	(453,631)	1,538,896	1,430,367	1418%
Other financing sources:						
Interfund transfers	(1,326,561)	(1,049,200)	277,361	(454,678)	594,522	43%
Net change in fund balance	(764,401)	(940,671)	(176,270)	1,084,218	2,024,889	-115%
Fund balance as of January 1	4,717,167	4,717,167		4,717,167	-	
Fund balance as of December 31	\$ 3,952,766	\$ 3,776,496		\$ 5,801,385	\$ 2,024,889	

The difference between the original general fund budget and the final amended budget was primarily due to an increase in appropriations of \$281,000 as approved by council ordinances. This increase reflects council's commitment to using one-time revenue for facility repairs and technology upgrades. Other expenditure budget changes were line-item adjustments between departments within a fund as authorized by the city manager.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The city's investment in capital assets, including construction in progress, totals \$114,224,600 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, infrastructural improvements, intangible assets, machinery and equipment, park facilities, and construction in progress. This reflects an increase in net capital assets of \$5.29 million in 2017.

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
Land	\$ 16,060,373	\$ 15,996,830	\$ 3,133,639	\$ 2,982,132	\$ 19,194,012	\$ 18,978,962
Construction in progress	1,933,195	403,177	266,485	277,848	2,199,680	681,025
Buildings	9,929,484	10,317,639	921,290	955,228	10,850,774	11,272,867
Machinery and equipment	1,102,369	1,363,927	64,543	86,531	1,166,912	1,450,458
Infrastructure	24,933,038	22,064,144	41,309,353	39,188,670	66,242,391	61,252,814
Improvements other than buildings	981,285	617,672	27,952	29,596	1,009,237	647,268
Intangible assets	-	-	13,561,594	14,651,624	13,561,594	14,651,624
Total	<u>\$ 54,939,744</u>	<u>\$ 50,763,389</u>	<u>\$ 59,284,856</u>	<u>\$ 58,171,629</u>	<u>\$ 114,224,600</u>	<u>\$ 108,935,018</u>

Major capital projects during the 2017 fiscal year included the following:

- Completion of South Parkway Avenue street improvements for a cost of \$3,423,796. Funding was through the Washington State Transportation Improvement Board and city transportation impact fees. Other costs included water infrastructure costs of \$430,707; sewer infrastructure costs of \$105,432; and drainage infrastructure costs of \$23,713.
- Intersection and street improvements remain in construction for NW 5th Way. Funding is through Connect Washington and city transportation impact fees. Project cost as of 12/31/2017 was \$1,566,342.

Additional information on the city's capital assets is located in Note 4 in the notes to the financial statement in this report.

Long-term Debt

At December 31, 2017, the city had total long-term debt outstanding of \$19,611,461. Of this amount, \$9,090,379 is general obligation debt, which includes \$85,379 of issuance premium. General obligation bonds are direct obligations and pledge the full faith and credit of the city. The city's remaining capacity for non-voted long-term general obligation debt is approximately \$21.5 million. Standard and Poor's last affirmed the city's rating of "AA-" for its general obligation debt in September 2014 citing strong budgetary flexibility and management.

In 2017, the city entered into a capital lease totaling \$345,000 for the purchase of five police patrol vehicles and a maintenance facility van. Outstanding capital lease obligations at December 31, 2017 are \$809,865.

At December 31, 2017 there were also outstanding government long-term loans made by the State of Washington under the Public Works Trust Fund Loan Program of \$761,996 and sewer revenues bonds of \$8,949,221.

The table below is a comparison of the summary for outstanding debt at December 31, 2016 and 2017.

	Governmental Activities		Business-Type Activities		Total Activities	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 9,005,000	\$ 9,755,000	\$ -	\$ -	\$ 9,005,000	\$ 9,755,000
Capital leases	809,865	661,653	-	-	809,865	661,653
Government loans	600,000	700,000	161,996	215,994	761,996	915,994
Revenue bonds	-	-	8,949,221	9,178,450	8,949,221	9,178,450
Issuance premium (LTGO)	85,379	101,108	-	-	85,379	101,108
Total	<u>\$ 10,500,244</u>	<u>\$ 11,217,761</u>	<u>\$ 9,111,217</u>	<u>\$ 9,394,444</u>	<u>\$ 19,611,461</u>	<u>\$ 20,612,205</u>

Additional information on the city's long-term debt is located in Note 7 in the notes to the financial statement in this report.

ECONOMIC OUTLOOK AND FUTURE CONDITIONS

The city serves city residents as well as a greater trade area of about 82,600 people. Growth stalled in the aftermath of the "great recession" but has steadily improved during 2016 and 2017. Residential and commercial development increased in the city while the broader regional economy also improved with increased employment and economic development. However, the city is challenged to restore service and program levels to a growing population unless sustainable revenue sources are identified. The city grew from a population of 19,640 in 2016 to 20,370 in 2017. To address these challenges, the city has initiated an on-going visioning process involving community engagement. The goal of this initial phase is to establish a vision statement and community direction by the end of 2018.

The city's adopted financial policies continue to guide the financial operations and biennial budget process. 2017 was the first year of the 2017-2018 biennial budget, adopted by Ordinance 16-22. The 2017-2018 biennial budget continues to address aspects of an ongoing structural deficit while focusing on core services identified by city council: 1) provide a high level of public safety, 2) improve the condition and presentation of city assets to promote livability and a more welcoming environment, and 3) adopt workflow efficiencies to improve affordability and cost-effectiveness of service delivery.

Unforeseen economic conditions could affect budget forecasts. Adjustments to fund forecasts may be necessary if major assumptions change. These assumptions include:

- Utility rate increases continue to support adopted master plans and customer utility costs remain below industry affordability thresholds based on median household incomes
- Residential and commercial developments continue as projected
- Legislative budget decisions will not have adverse impacts on state-shared revenues to cities

The city is challenged with maintaining and gradually replacing aging infrastructure, including streets, utility lines, buildings, and other community assets. Major projects for 2018 include the following:

- Complete construction of NW 5th Way
- Rehabilitation of sewer lift stations
- Construction of turn lanes at the major intersection of state routes 502 and 503

Requests for Information

This financial report provides a general overview of City of Battle Ground's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, address to the Finance Department, City of Battle Ground, 109 SW 1st Street, Suite 217, Battle Ground, WA, 98604.

CITY OF BATTLE GROUND
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-type Activities	Total Primary Government
Assets			
Cash and Cash Equivalents	\$ 10,799,667	\$ 17,367,124	\$ 28,166,791
Investments	1,435,154	2,308,911	3,744,065
Receivables	2,123,826	856,311	2,980,137
Internal Balances	(388,849)	388,849	-
Restricted Assets			
Cash and Cash Equivalents	-	297,778	297,778
Deposits with Fiscal Agent	345,000	-	345,000
Net Pension Asset	1,013,955	-	1,013,955
Capital Assets (not being depreciated)			
Land	16,060,373	3,133,639	19,194,012
Construction Work in Progress	1,933,195	266,485	2,199,680
Capital Assets (net of accumulated depreciation)			
Buildings	9,929,484	921,290	10,850,774
Improvements Other than Buildings	981,285	27,952	1,009,237
Intangible Assets	-	13,561,594	13,561,594
Machinery and Equipment	1,102,369	64,543	1,166,912
Infrastructure	24,933,038	41,309,353	66,242,391
Total Assets	<u>70,268,497</u>	<u>80,503,829</u>	<u>150,772,326</u>
Deferred Outflows of Resources			
Related to Pensions	453,846	98,829	552,675
Total Deferred Outflows of Resources	<u>453,846</u>	<u>98,829</u>	<u>552,675</u>
Liabilities			
Accounts Payable	1,056,879	139,787	1,196,666
Other Current Liabilities	205,846	31,287	237,133
Accrued Interest Payable	41,774	96,548	138,322
Unearned Revenue			-
Custodial Deposits	198,711		198,711
Noncurrent Liabilities			
Due within One Year	1,195,752	296,390	1,492,142
Due in More than One Year	11,090,224	8,934,871	20,025,095
Net Pension Liability	2,037,054	630,173	2,667,227
Total Liabilities	<u>15,826,240</u>	<u>10,129,056</u>	<u>25,955,296</u>
Deferred Inflows of Resources			
Related to Pensions	615,729	110,315	726,044
Total Deferred Inflows of Resources	<u>615,729</u>	<u>110,315</u>	<u>726,044</u>
Net Position			
Net Investment in Capital Assets	44,439,495	50,173,640	94,613,135
Restricted for			
Capital	5,544,003	-	5,544,003
Pension	1,013,955	-	1,013,955
Debt Service	-	297,778	297,778
Drug Investigation	68,921	-	68,921
Tourist Promotion	174,624	-	174,624
Unrestricted	3,039,376	19,891,869	22,931,245
Total Net Position	<u>\$ 54,280,374</u>	<u>\$ 70,363,287</u>	<u>\$ 124,643,661</u>

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Statement of Activities
For the year ended December 31, 2017

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Indirect Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -type Activities	Total
PRIMARY GOVERNMENT								
Governmental Activities:								
General Government	\$ 2,848,597	\$ (1,030,268)	\$ 342,546	\$ 22,750	\$ -	\$ (1,453,033)	\$ -	\$ (1,453,033)
Judicial	730,455	-	195,861	10,000	-	(524,594)	-	(524,594)
Public Safety	6,766,840	-	305,607	169,344	-	(6,291,890)	-	(6,291,890)
Physical Environment	457,270	-	21,533	-	-	(435,737)	-	(435,737)
Transportation	3,279,449	-	-	845,215	5,843,493	3,409,259	-	3,409,259
Economic Environment	941,778	-	2,167,138	-	-	1,225,360	-	1,225,360
Culture and Recreation	1,049,993	-	-	14,993	495,859	(539,142)	-	(539,142)
Interest Expense	460,347	-	-	-	-	(460,347)	-	(460,347)
TOTAL GOVERNMENTAL ACTIVITIES	16,534,729	(1,030,268)	3,032,685	1,062,301	6,339,352	(5,070,123)	-	(5,070,123)
Business Type Activities:								
Storm Drainage	1,026,644	354,089	1,205,307	-	1,000,874	-	825,448	825,448
Water	2,592,076	322,156	2,728,712	-	803,492	-	617,972	617,972
Sewer	5,332,104	354,023	3,831,541	-	3,526,207	-	1,671,621	1,671,621
TOTAL BUSINESS-TYPE ACTIVITIES	8,950,824	1,030,268	7,765,560	-	5,330,573	-	3,115,041	3,115,041
Total Primary Government	\$ 25,485,553	\$ -	\$ 10,798,245	\$ 1,062,301	\$ 11,669,925	\$ (5,070,123)	\$ 3,115,041	\$ (1,955,082)
General Revenues:								
Taxes:								
Property Taxes Levied for General Purposes						2,902,251	-	2,902,251
Sales and Use Taxes						3,521,945	-	3,521,945
Business and Occupation Taxes						3,187,273	-	3,187,273
Excise Taxes						1,187,267	-	1,187,267
Grants and Contributions not Restricted to Specific Programs						347,317	-	347,317
Unrestricted Investment Earnings						98,941	169,175	268,116
Gain (loss) on Sale of Capital Assets						13,207	(29,376)	(16,169)
Miscellaneous						106,116	163,304	269,420
Total General Revenues						11,364,317	303,103	11,667,420
Change in Net Position						6,294,194	3,418,144	9,712,338
Net Position - Beginning						47,986,180	66,945,143	114,931,323
Net Position - Ending						\$ 54,280,374	\$ 70,363,287	\$ 124,643,661

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Governmental Funds
Balance Sheet
December 31, 2017

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 4,623,434	\$ 86,605	\$ 5,373,952	\$ 10,083,991
Investments	614,041	11,513	714,452	1,340,006
Restricted Cash and Cash Equivalents	-	-	-	-
Property Taxes Receivables	57,263	-	-	57,263
Utility Tax Receivable	157,621	-	-	157,621
Accounts Receivable	1,131,805	443,075	93,296	1,668,175
Interest Receivable	3,623	-	5,337	8,960
Municipal Court Receivable	226,856	-	-	226,856
Total Assets	6,814,643	541,193	6,187,037	13,542,872
Liabilities				
Accounts Payable	399,097	538,634	90,467	1,028,198
Due to Other Governmental Units	-	-	-	-
Other Accrued Liabilities	147,950	1,635	56,261	205,846
Custodial Deposits	198,711	-	-	198,711
Total Liabilities	745,758	540,269	146,728	1,432,755
Deferred Inflows of Resources				
Unavailable revenue-property taxes	40,645	-	-	40,645
Unavailable revenue-municipal court	226,856	-	-	226,856
Total Deferred Inflows of Resources	267,501	-	-	267,501
Fund Balances				
Restricted for:				
Capital	-	924	5,543,079	5,544,003
Drug Investigation	-	-	68,921	68,921
Tourist Promotion	-	-	174,624	174,624
Committed to:				
Economic Stabilization	382,871	-	-	382,871
Assigned to:				
LEOFF 1	61,057	-	-	61,057
Parks	414,918	-	-	414,918
Insurance Reserve	7,862	-	-	7,862
Street	-	-	253,684	253,684
Unassigned	4,934,676	-	-	4,934,676
Total Fund Balances	5,801,384	924	6,040,308	\$ 11,842,616
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 6,814,643	\$ 541,193	\$ 6,187,036	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (excludes internal service funds) 54,098,593

Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds (see note 2A) 1,119,573

Long-term liabilities that are not due and payable in the current period and are not reported in the funds (see note 2A) (13,773,893)

Net position of internal service funds - governmental activities (see note 2A) 993,485

Net position of governmental activities \$ 54,280,374

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2017

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 2,906,406	\$ -	\$ -	\$ 2,906,406
Sales and Use Taxes	3,521,944	-	-	3,521,944
Other Taxes	3,197,554	-	1,903,657	5,101,211
License and Permits	963,119	-	-	963,119
Intergovernmental	710,803	4,057,459	478,696	5,246,958
Charges for Services	1,616,391	-	940,696	2,557,087
Fines and Forfeits	241,915	-	-	241,915
Interest Earnings	42,367	-	56,575	98,942
Rents and Royalties	282,302	-	-	282,302
Contributions/Donations	22,750	-	118,544	141,294
Miscellaneous	89,810	-	16,306	106,116
Total Revenues	<u>13,595,361</u>	<u>4,057,459</u>	<u>3,514,474</u>	<u>21,167,294</u>
Expenditures				
Current				
General Government	2,573,435	-	-	2,573,435
Judicial	737,822	-	-	737,822
Security/Persons and Property	6,628,499	-	966	6,629,465
Physical Environment	439,352	-	-	439,352
Transportation	-	-	1,436,015	1,436,015
Economic Environment	926,539	-	27,569	954,108
Culture and Recreation	621,871	-	-	621,871
Capital Expenditures				
Security/Persons and Property	81,960	-	-	81,960
Transportation		4,713,445	179,482	4,892,927
Debt Service				
Principal Retirement	36,541	-	850,000	886,541
Interest/Fiscal Charges	10,447	-	458,675	469,122
Total Expenditures	<u>12,056,466</u>	<u>4,713,445</u>	<u>2,952,707</u>	<u>19,722,618</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,538,895	(655,986)	561,767	1,444,676
Other Financing Sources (Uses)				
Transfers In	96,464	656,910	1,590,131	2,343,505
Transfers Out	(551,142)	-	(2,072,365)	(2,623,507)
Total Other Financing Sources and Uses	<u>(454,678)</u>	<u>656,910</u>	<u>(482,234)</u>	<u>(280,002)</u>
Net Change in Fund Balance	1,084,218	924	79,533	1,164,674
Fund Balance at Beginning of Year	4,717,167	-	5,960,775	10,677,942
Fund Balance at End of Year	<u>\$ 5,801,385</u>	<u>\$ 924</u>	<u>\$ 6,040,308</u>	<u>\$ 11,842,616</u>

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
Year Ended December 31, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balance - total governmental funds:	\$ 1,164,674
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	2,163,481
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, transfers, trade-ins, and donations) is to increase net position.	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,805,753
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	897,896
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	878
Internal service funds are used by management to charge the costs of vehicle and technology replacement to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	261,512
Change in Net Position of Governmental Activities	<u>\$ 6,294,194</u>

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended December 31, 2017

	Budget Amounts		Actual Year-To- Date Thru 12/31/17	Variance Thru 12/31/17
	Original 2017-2018 Biennium	Final 2017-2018 Biennium		
Revenues				
Property Taxes	\$ 5,835,100	\$ 5,835,100	\$ 2,906,406	\$ (2,928,694)
Sales and Use Taxes	6,378,000	6,378,000	3,521,944	(2,856,056)
Other Taxes	5,711,525	5,711,525	3,197,554	(2,513,971)
License and Permits	2,642,056	2,642,056	963,119	(1,678,937)
Intergovernmental	1,149,268	1,164,268	695,811	(468,457)
Charges for Services	2,786,182	2,786,182	1,699,928	(1,086,254)
Fines and Forfeits	527,600	527,600	241,915	(285,685)
Interest Earnings	30,600	30,600	32,216	1,616
Rents and Royalties	434,091	434,091	153,563	(280,528)
Contributions/Donations	19,000	19,000	13,250	(5,750)
Miscellaneous	111,000	111,000	65,277	(45,723)
Total Revenues	25,624,422	25,639,422	13,490,983	(12,148,439)
Expenditures				
Current				
General Government	5,267,318	5,379,271	2,538,172	2,841,099
Judicial	1,403,149	1,418,149	737,822	680,327
Security/Persons and Property	13,936,166	14,177,574	6,628,499	7,549,075
Physical Environment	929,255	929,255	439,352	489,903
Economic Environment	2,076,140	2,176,140	926,539	1,249,601
Culture and Recreation	1,333,818	1,333,818	-	1,333,818
Capitalized Expenditures	-	-	81,960	(81,960)
Debt Service				
Principal Retirement	102,020	102,020	36,541	65,479
Interest/Fiscal Charges	14,666	14,666	10,447	4,219
Total Expenditures	25,062,532	25,530,893	11,399,332	14,131,561
Excess (Deficiency) of Revenues Over (under) Expenditures	561,890	108,529	2,091,651	1,983,122
Other Financing Sources (Uses)				
Transfers In	(89,200)	100,800	196,464	95,664
Transfers Out	(1,237,361)	(1,150,000)	(926,142)	223,858
Total Other Financing Sources and Uses	(1,326,561)	(1,049,200)	(729,678)	319,522
Net Change in Fund Balance	(764,671)	(940,671)	1,361,973	2,302,644
Fund Balance at Beginning of Year	1,003,049	1,117,854	3,572,702	2,454,848
Fund Balance at End of Year	\$ 238,378	\$ 177,183	\$ 4,934,675	\$ 4,757,492
Adjustment to generally accepted accounting principles (GAAP) basis:				
Parks Fund budgeted as separate fund			\$ 414,918	
Insurance Reserve Fund budgeted as separate fund			7,862	
LEOFF I Reserve Fund budgeted as separate fund			61,058	
Economic Stabilization Fund budgeted as separate fund			382,871	
Fund Balance GAAP basis:			\$ 5,801,384	

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Proprietary Funds
Statement of Net Position
December 31, 2017

	Business-type Activities			Total Enterprise Funds	Governmental Activities Internal Service Funds
	Storm Drainage	Water	Sewer		
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 1,821,794	\$ 7,292,428	\$ 8,252,903	\$ 17,367,124	\$ 715,677
Investments	242,202	969,508	1,097,201	2,308,911	95,147
Receivables (net)					
Accounts	120,895	283,507	436,243	840,645	4,500
Interest	1,742	6,630	7,295	15,666	451
Restricted Assets					
Deposits with Fiscal Agent	-	-	-	-	345,000
Total Current Assets	<u>2,186,633</u>	<u>8,552,072</u>	<u>9,793,641</u>	<u>20,532,346</u>	<u>1,160,775</u>
Noncurrent Assets					
Restricted Cash and Cash Equivalents	-	-	297,778	297,778	
Property, Plant and Equipment (Net)	9,295,324	17,924,173	32,065,359	59,284,856	841,147
Total Noncurrent Assets	<u>9,295,324</u>	<u>17,924,173</u>	<u>32,363,137</u>	<u>59,582,634</u>	<u>841,147</u>
Total Assets	<u>11,481,957</u>	<u>26,476,245</u>	<u>42,156,778</u>	<u>80,114,980</u>	<u>2,001,922</u>
Deferred Outflows of Resources					
Deferred Outflows Related to Pensions	31,348	40,270	27,211	98,829	-
Liabilities					
Current Liabilities					
Accounts Payable	16,367	84,366	39,054	139,787	28,681
Accrued Interest Payable	-	12,328	84,220	96,548	3,739
Other Accrued Liabilities	8,160	16,140	6,987	31,287	-
Unearned Revenues	-	932	-	932	-
Compensated Absences	-	-	-	-	-
Lease Payable	-	-	-	-	254,890
Bonds, Notes and Loans Payable	-	134,978	161,412	296,390	-
Total Current Liabilities	<u>24,527</u>	<u>248,744</u>	<u>291,673</u>	<u>564,944</u>	<u>287,310</u>
Noncurrent Liabilities					
Lease Payable	-	-	-	-	332,277
Bonds, Notes and Loan Payable	-	2,442,103	6,372,724	8,814,826	-
Compensated Absences	24,715	52,103	42,295	119,113	-
Net Pension Liability	199,885	256,782	173,506	630,173	-
Total Noncurrent Liabilities	<u>224,600</u>	<u>2,750,988</u>	<u>6,588,525</u>	<u>9,564,112</u>	<u>332,277</u>
Total Liabilities	<u>249,126</u>	<u>2,999,732</u>	<u>6,880,198</u>	<u>10,129,056</u>	<u>619,587</u>
Deferred Inflows of Resources					
Deferred Inflows Related to Pensions	34,991	44,951	30,373	110,315	-
Net Position					
Net Investment in Capital Assets	9,295,324	15,347,092	25,531,223	50,173,639	253,980
Restricted for Debt Service	-	-	297,778	297,778	-
Unrestricted	1,933,864	8,124,740	9,444,417	19,503,021	1,128,355
Total Net Position	<u>\$ 11,229,188</u>	<u>\$ 23,471,832</u>	<u>\$ 35,273,418</u>	<u>\$ 69,974,438</u>	<u>\$ 1,382,335</u>
Adjustment to report cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time (see note 2C)				388,849	
Net Position of business-type activities				<u>\$ 70,363,287</u>	

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended December 31, 2017

	Business-type Activities				Governmental Activities
	Storm Drainage	Water	Sewer	Total Enterprise Funds	Internal Service Funds
Operating Revenues					
Charge for Services	\$ 1,205,307	\$ 2,728,712	\$ 3,831,541	\$ 7,765,560	\$ 316,615
Miscellaneous	449	2,923	-	3,372	
Total Operating Revenues	<u>1,205,756</u>	<u>2,731,635</u>	<u>3,831,541</u>	<u>7,768,932</u>	<u>316,615</u>
Operating Expenses					
Personnel Services	452,894	507,483	384,921	1,345,298	-
Equipment and Supplies	9,390	569,115	19,813	598,318	76,305
Professional Services	35,645	67,954	63,602	167,201	-
Utilities	-	159,530	79,716	239,246	-
Repairs and Maintenance	115,090	66,074	82,276	263,440	-
Taxes	24,453	157,360	81,096	262,909	-
Intergovernmental services	-	-	2,590,409	2,590,409	-
Insurance claims and expenses	9,508	13,522	15,680	38,710	-
Allocated expenses	354,089	322,156	354,023	1,030,268	-
Other	79,689	169,263	102,493	351,445	-
Depreciation	299,976	795,779	1,718,098	2,813,853	198,322
Total Operating Expenses	<u>1,380,734</u>	<u>2,828,236</u>	<u>5,492,127</u>	<u>9,701,097</u>	<u>274,627</u>
Operating Income (loss)	(174,978)	(96,601)	(1,660,586)	(1,932,165)	41,988
Nonoperating Revenues (Expenses)					
Interest Earnings	18,229	70,107	80,839	169,175	4,640
State and Federal Grants	3,611	-	-	3,611	-
Miscellaneous Revenues	-	933	90,048	90,981	-
Interest and Fiscal Charges	-	(85,995)	(194,001)	(279,996)	(9,373)
Gain (loss) on Sale of Capital Assets	-	(29,376)	-	(29,376)	13,207
Total Nonoperating Revenues (Expenses)	<u>21,840</u>	<u>(44,331)</u>	<u>(23,114)</u>	<u>(45,605)</u>	<u>8,474</u>
Income (Loss) before Contributions , Transfers, and Special Items	(153,138)	(140,932)	(1,683,700)	(1,977,770)	50,462
Capital Contributions	997,263	803,492	3,526,208	5,326,963	-
Transfers In	-	-	-	-	280,002
Change in Net Position	<u>844,125</u>	<u>662,560</u>	<u>1,842,508</u>	<u>3,349,193</u>	<u>330,464</u>
Total Net Position at Beginning of Year	10,385,063	22,809,272	33,430,910		1,051,871
Total Net Position at End of Year	<u>\$ 11,229,188</u>	<u>\$ 23,471,832</u>	<u>\$ 35,273,418</u>		<u>\$ 1,382,335</u>
Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds				68,951	
Changes in net position of business-type activities				<u>\$ 3,418,144</u>	

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2017

	Business-type Activities			Governmental Activities	
	Storm Drainage	Water	Sewer	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:					
Cash received from Customers	\$ 1,195,133	\$ 2,744,803	\$ 3,927,411	\$ 7,867,346	\$ -
Receipts from vehicle interfund charges					210,775
Receipts from technology interfund charges					105,840
Cash payments to Suppliers	(248,302)	(1,129,700)	(2,964,236)	(4,342,238)	(47,803)
Cash payments to Employees	(447,458)	(546,572)	(387,506)	(1,381,535)	-
Cash payments for Interfund Services Received	(381,221)	(339,034)	(402,923)	(1,123,177)	-
Net Cash Provided by Operating Activities	118,152	729,497	172,746	1,020,395	268,812
Cash Flows from Noncapital Financing Activities:					
Proceeds from Operating Grants	3,611	-	-	3,611	-
Net Cash Provided (Used) by Noncapital Financing Activities	3,611	-	-	3,611	-
Cash Flows from Capital and Related Financing Activities:					
Acquisition and Construction of Capital Assets	(8,496)	(448,707)	(109,283)	(566,486)	(16,036)
Proceeds from Other Financing (Transfers)				-	280,002
Proceeds from Sale of Capital Assets					8,707
Principal Paid on Capital Lease				-	(160,247)
Interest Paid on Capital Lease					(11,219)
Principal Paid on Current Debt		(124,967)	(158,261)	(283,228)	-
Interest Paid on Revenue Bonds and Other Long Term Debt		(86,593)	(195,676)	(282,269)	-
Capital Contributed-Paid in cash	78,579	445,107	1,413,310	1,936,996	-
Net Cash Provided for Capital and Related Financing Activities	70,083	(215,160)	950,090	805,013	101,207
Cash Flows from Investing Activities:					
Interest on Investments	19,835	76,040	86,339	182,214	4,380
Proceeds or Purchase of Investment Securities	20,753	119,501	57,904	198,158	(33,192)
Net Cash Used by Investing Activities	40,588	195,541	144,243	380,372	(28,812)
Net Increase (Decrease) in Cash and Cash Equivalents	232,434	709,878	1,267,079	2,209,391	341,207
Cash and Cash Equivalents at Beginning of Year	1,589,360	6,582,550	7,283,601	15,455,511	374,470
Cash and Cash Equivalents at End of Year	\$ 1,821,794	\$ 7,292,428	\$ 8,550,680	\$ 17,664,902	\$ 715,677

continued on next page

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2017

	Business-type Activities				Governmental Activities
	Storm Drainage	Water	Sewer	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:					
Net Operating Income (Loss)	\$ (174,978)	\$ (96,601)	\$ (1,660,586)	\$ (1,932,165)	\$ 41,988
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operations:					
Depreciation Expense	299,976	795,779	1,718,098	2,813,853	198,322
Pension Expense (GASB 68)	(696)	(41,131)	(11,281)	(53,108)	-
(Increase) Decrease in Receivables	(10,624)	12,233	5,820	7,430	-
(Increase) Decrease in Miscellaneous Revenues		933	90,048	90,981	
(Increase) Decrease in Prepaid Assets				-	
Increase (Decrease) in Current Payables	(1,659)	56,240	21,951	76,532	28,502
Increase (Decrease) in Accrued Employee Benefits	6,133	2,044	8,695	16,872	-
Total Adjustments	293,131	826,098	1,833,332	2,952,560	226,824
Net Cash Provided by Operating Activities	<u>\$ 118,153</u>	<u>\$ 729,497</u>	<u>\$ 172,746</u>	<u>\$ 1,020,395</u>	<u>\$ 268,812</u>
Noncash Investing, Financing and Capital Activities					
Capital Assets Contributed	918,685	358,385	2,112,897	3,389,967	-
Net Change in Fair Value of Investments	256	3,781	1,845	5,882	(242)
Proceeds from Capital Lease	-	-	-	-	345,000

The notes to the financial statements are an integral part of this statement

CITY OF BATTLE GROUND
Notes to Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Battle Ground, Washington (city) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Battle Ground was incorporated in June 1951. It operates under the laws of the State of Washington applicable to noncharter code cities with a council-manager form of government. City council is composed of seven elected members with one selected to serve as the mayor. The city is a general purpose government and provides public safety, street construction and maintenance, parks and recreation, judicial administration, planning, economic development, and general administrative services. The city owns and operates water, storm drainage, and sewer utilities. The city contracts for fire services.

As required by generally accepted accounting principles, the financial statements present the City of Battle Ground as a primary government. The city does not have any component units.

B. Basis of Presentation - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report information on all of the nonfiduciary activities of the primary government.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are instead reported as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The city reports the following major governmental fund:

The **General** (or current expense) **Fund** is the city's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund. The Parks and Recreation Fund, Insurance Reserve Fund, LEOFF I Reserve Fund, and the Economic Fund are included in the general fund for financial reporting purposes.

The **Capital Project Fund** accounts for financial resources used for the acquisition, construction, and preservation of general governmental capital projects. South Parkway Avenue and Northwest 5th Way were major transportation capital projects constructed in 2017.

The city reports the following major enterprise funds:

The **Storm Drainage Fund** provides flood management and water quality protection. Activities include construction and maintenance of public drainage systems, erosion control, and environmental public awareness. System development charges assessed on new development are expended to build and expand drainage systems. The Storm Drainage System Development Charge Fund is included with the storm drainage fund for financial reporting purposes.

The **Water Fund** accounts for the city's water utility operations. Activities of the municipal water system includes production, treatment, storage, and distribution of domestic water. Utility operations are self-supported through user fees. System development charges assessed on new development are expended to build and expand water capacity. The Water System Development Charge Fund is included in the water fund for financial reporting purposes.

The **Sewer Fund** accounts for the city's sewer utility operations. Sewer operations provide safe and clean collection and disposal of sewage. Utility operations are self-supported through user fees. System development charges assessed on new development are expended to build and expand sewer capacity. The Sewer System Development Charge Fund is included in the sewer fund for financial reporting purposes.

Additionally, the city reports the following fund types:

Debt service funds account for and report the resources accumulated and payments made for principal and interest of the general government and for water revenue bonds.

Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed for expenditures for specified purposes. Special revenue funds include the Street Fund, Drug Investigation Fund, and the Lodging Tax Fund.

Internal service funds account for financial resources used to fund the acquisition and preservation of fleet and information technology equipment provided to other city departments. Because these services benefit governmental operations more than business-type functions, these funds have been included within governmental activities in the government-wide financial statements.

C. Measurement Focus, Basis of Accounting

1. Government-wide and Governmental Funds

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the city.

2. Proprietary Funds

Proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary information

1. Scope of Budget

The City of Battle Ground prepares biennial budgets in accordance with the Revised Code of Washington (RCW) Chapter 35A.34. State law establishes the budget process and the time limits under which a biennial budget must be developed. All governmental funds are prepared on a modified accrual basis consistent with generally accepted accounting principles. These budgets are adopted at the fund level and constitute the legal authority for expenditures. Expenditures and other financing uses may not exceed budgeted appropriations at these levels. Any unexpended appropriation balances lapse at the end of the biennium.

Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. Proprietary funds are budgeted for management purposes only.

2. Amending the Budget

The city manager is authorized to transfer budgeted amounts between departments within any fund. Any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions, salary ranges or other conditions of employment must be approved by the city council. When the council determines that it is in the best interest of the city to increase or decrease the appropriations for a particular fund, it may do so by ordinance.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the biennium. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the biennial budget.

E. Assets, Liabilities, Fund Balance and Net Position

1. Cash and Cash Equivalents - See Note 3

It is the city's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding \$28,464,569 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

For purposes of the *Statement of Cash Flows*, the city considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents. All amounts held in the Local Government Investment Pool (LGIP) and Clark County Investment Pool (CCIP) are considered to be cash equivalents.

2. Investments - See Note 3

Investments purchased with an original maturity of more than three months are classified as investments. Investments are reported at fair value on quoted market prices for securities. Change in fair value is reported in the *Statement of Revenues, Expenses and Changes in Net Position* as investment earnings.

State statute (RCW 39.59.040) authorizes investments in obligations of the U.S. Treasury, commercial paper, banker's acceptances, certain other government agency obligations, and the state and county treasurer's investment pool. The city's investment policy does not further limit investment choices. The city's investment policy requires all securities transactions to be conducted on a delivery-versus-payment basis.

3. Receivables – See Note 13

Taxes receivable consists of property taxes and related interest and penalties (see Note 9). Accrued interest receivable consists of amounts earned on investments and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Uncollectible amounts are considered immaterial and the direct write-off method is used.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable – See Note 5

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund loans receivable/payable” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories in the proprietary funds are not material and are not recorded.

6. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service in enterprise funds. Restricted assets for business-type activities are \$297,778. This specific debt service reserve requirement for the Sewer Fund is described in Note 7.

7. Capital Assets – See Note 4

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of \$10,000 (\$5,000 for assets acquired with federal financial assistance) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Asset Category	Useful Life (years)
Buildings	40
Infrastructure	20-40
Intangible Assets	20-40
Utility Improvements	40
Public Work Equipment	8
Vehicles	5-8
Office and Electronic Equipment	5-10

8. Compensated Absences

Eligible employees earn vacation leave, sick leave, and compensatory time in lieu of overtime. Unless otherwise provided by collective bargaining agreement or contract, vacation accruals are capped at 360 hours. Maximum accrual for sick leave is 960 hours.

If unused, compensation is paid upon termination of employment according to the terms of the applicable collective bargaining agreement, personnel rules and regulations, and the employee's length of service. Vacation leave and compensatory time generally qualify for 100% payout. Sick leave is limited to 33% payout upon retirement.

All leave is accrued when incurred in the government-wide and proprietary fund financial statements. As of December 31, 2017, the city reported compensated absences of \$618,854 in governmental activities and \$119,113 in business-type activities.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Other Post-employment Benefits

Lifetime full medical coverage is provided to uniformed police personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual health care costs are reported as expenditures in the year they are incurred and are paid out of the LEOFF I Fund.

11. Other Accrued Liabilities

These accounts consist of accrued employee wages and benefits.

12. Long-Term Liabilities - See Note 7

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Under GASB 65, bond issue costs are expensed when incurred. Long-term obligations used to finance proprietary fund operations and payable from revenue of the proprietary funds are accounted for in the applicable fund.

13. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

14. Custodial Deposits

Custodial deposits represent facility rental and developer deposits.

15. Fund Balance Classification

Assets in excess of liabilities are reported as fund balances, and are segregated into separate classifications indicating the extent to which the city is bound to honor constraints on the specific purposes for which those funds can be spent.

Nonspendable	Fund balance that cannot be spent because resources are either not in spendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid items.
Restricted	Fund balance is reported as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
Committed	Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (e.g. legislation, resolution, ordinance)
Assigned	Assigned fund balance includes resources intended to be used by the city for specific purposes, but are neither restricted nor committed. The city has not established a policy regarding the assignment of funds, so this category of fund balance represents the residual amounts not otherwise reported as nonspendable, restricted, or committed.
Unassigned	This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Flow assumption: When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the city's policy to use restricted resources first. When expenditure is incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the city's policy to spend committed resources first, then assigned, and unassigned, in that order. However, prior to the commencement of any project, the flow assumptions are reviewed to ensure that the proper resources are being used.

16. Fund Reserve Goals

The city has financial management guidelines that set reserve goals for selected city funds.

General Fund - City council adopted Resolution 2017-10 which targets an unrestricted fund balance of 60 days of regular general fund operating expenditures. The target level is calculated on the monthly average of total annual budgeted general fund operating expenditures for the ensuing fiscal year. If the fund falls below its minimum level, the city will adjust the budget in subsequent fiscal years to restore the fund balance within three fiscal years.

Economic Stabilization Fund - City council adopted Resolution 2012-08 which created a cumulative reserve fund to maintain resources to provide continuing levels of service when projected revenue collections are not adequate. One-time revenues are placed in the fund and city council determines when to expend funds. This arrangement is disclosed as committed fund balance in the general fund – *Governmental Funds Balance Sheet*.

17. Use of Estimates

These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates and assumptions.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The *Governmental Fund Balance Sheet* includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the *Government-wide Statement of Net Position*. One element of the reconciliation is "other long-term assets not available to pay for current-period expenditures and, therefore are deferred in the funds." The details of this difference are as follows:

Earned but unavailable revenues	\$ 267,501
Net pension asset	1,013,955
Deferred outflows related to pensions	453,846
Deferred inflows related to pensions	<u>(615,729)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 1,119,573</u>

Another element of that reconciliation explains, "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$ 9,005,000
Plus: Issuance premium (to be amortized as interest expense)	85,379
Accrued interest payable	38,035
Due to other governments	600,000
Capital lease payable	222,698
Net OPEB obligation	700,594
Net pension obligation	2,037,054
Compensated absences	618,854
Impact fee credits	<u>466,279</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 13,773,893</u>

Another element of that reconciliation explains that "internal service funds related to governmental activities." The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. The details of this difference are as follows:

Net position of the internal service funds	\$ 1,382,334
Less: Internal payable representing charges in excess of cost to business-type activities – prior years	(319,897)
Less: Internal payable representing charges in excess of cost to business-type activities – current year	<u>(68,952)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 993,485</u>

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund *Statement of Revenues, Expenditures and Changes in Fund Balance* includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that “governmental funds report capital outlays as expenditures.” However, in the *Statement of Activities* the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital Outlay	\$ 4,919,675
Depreciation expense	(2,756,194)
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 2,163,481</u>

Another element of that reconciliation states, “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this difference are as follows:

Contribution from developers	\$ 2,194,620
Unearned revenue	(383,416)
Municipal court revenue - unavailable	(1,297)
Tax revenues - unavailable	(4,154)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 1,805,753</u>

Another element of that reconciliation states that the “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The details of these differences are as follows:

Principal repayments:	
General obligation debt	\$ 750,000
Governmental loans	100,000
Capital leases	47,896
Net adjustment to increase net changes in fund balance-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 897,896</u>

Another element of that reconciliation states, “some expenses reported in the *Statement of Activities* do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” These result from year-to-year changes in amounts on the *Statement of Net Position*. The details of this difference are as follows:

Compensated absences	\$ (203,673)
Net OPEB obligation	(83,273)
Net pension liability	515,361
Net pension asset	560,170
Deferred outflow of resources – related to pensions	(275,626)
Deferred inflow of resources – related to pensions	(530,228)
Amortization of bond premium costs	15,729
Accrued interest	2,418
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 878</u>

Another element of the reconciliation states “internal service funds used by management to charge the costs of vehicle and technology replacement to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.” The details of this difference are as follows:

Change in net position of the internal service funds	\$ 330,463
Less: gain from charges to business-type activities	<u>(68,951)</u>
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 261,512</u>

C. Explanation of Certain Differences Between the Proprietary Fund Statement of Net Position and the Government-wide Statement of Net Position

The *Proprietary Fund Statement of Net Position* includes reconciliation between net position – total enterprise funds and net position of business-type activities as reported in the *Government-wide Statement of Net Position*. The description of the sole element of that reconciliation is “adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time.” The details of this difference are as follows:

Internal receivable representing charges in excess of cost to business-type activities – prior years	\$ 319,897
Internal receivable representing charges in excess of cost to business-type activities – current year	<u>68,952</u>
Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities	<u>\$ 388,849</u>

NOTE 3 – DEPOSITS AND INVESTMENTS

The city maintains a cash and investment pool that is available for use by all funds. In general, interest earned from pooled deposits and investments is allocated to each fund based on the average earnings and daily cash balance of each fund.

Investments in the state and county investment pools are classified as cash equivalents on the financial statements. Deposits and investments have no foreign currency risk. A reconciliation of cash, cash equivalents, and investments is shown in the government-wide and fund financial statements as follows:

Cash and Investments - Adj Bank Balance	
Checking Accounts	\$ 1,559,398
Petty Cash	4,750
Money Market Account	255,802
Certificates of Deposit	750,000
Local Government Investment Pool	219,298
Clark County Investment Pool	26,425,321
US Government Agencies (FMV)	2,994,065
	<u>\$ 32,208,634</u>

Financial Statements	
Cash and Cash Equivalents	\$ 28,166,791
Restricted Cash and Cash Equivalents	297,778
Investments	3,744,065
	<u>\$ 32,208,634</u>

A. Deposits

The city's bank balances of deposits and certificates of deposit are entirely insured. The Federal Depository Insurance Commission (FDIC) insures deposits up to \$250,000 and the Washington Public Deposit Protection Commission (PDPC) insures deposits over \$250,000.

B. Investments

Investments are subject to the following risks:

Credit rate risk

While the city does not have a written credit risk policy, the city invests in securities identified as eligible investments by state statutes. All debt securities in the city's investment portfolio are obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.

Custodial credit risk

The city's investment policy requires the city to execute custodial agreements with its bank or other custodial agents which are chartered by the United States government or the State of Washington. All investment security transactions are conducted on a delivery-versus-payment (DVP) basis. A financial institution, designated by the finance director as primary agent to serve as a custodian acting on the city's behalf, holds securities purchased by the city. All transactions are evidenced by safekeeping receipts.

Concentration of credit risk

Safety of the principal is the foremost objective of the city's investment program. All investment securities of the city are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The city's policy requires that the portfolio be structured to diversify investments to reduce the risk of loss by over-concentration of assets in a specific maturity, a specific issuer, or a specific type of security. The city's investment policy states that no more than 90 percent of the total portfolio may be invested in U.S. treasuries or agencies. The state and local investment pools are not limited.

Interest rate risk

In accordance with its investment policy, the city manages exposure to declines in fair values from interest rates by limiting the weighted average maturity of its investment portfolio to maturities that will fulfill the cash flow needs of the city. The securities in the portfolio are structured in a manner that ensures sufficient cash is available to meet anticipated cash flow needs based on historical information.

The city's investment policy states the average maturity of the portfolio will not exceed two years. However, the policy includes the state and local government investment pools as investments for calculating the maximum average maturity of investments.

Issuer	Fair Value	Maturity	Average Maturity in Years	% of Portfolio
Financing Corporation (FICO)	\$ 1,997,490	12/27/2018	1.00	6.6%
Federal Home Loan Mortgage Corp	996,575	7/30/2018	0.58	3.3%
Local Government Investment Pool	219,298	-	0.10	0.7%
Clark County Pool	26,425,321	-	0.67	87.0%
Certificate of Deposit	250,000	6/15/2018	0.46	0.8%
Certificate of Deposit	250,000	12/21/2018	0.98	0.8%
Certificate of Deposit	250,000	6/10/2019	1.44	0.8%
	<u>\$ 30,388,684</u>			100%

Portfolio weighted average maturity 0.69

Investments in the Local Government investment Pool (LGIP)

The city is a participant in the Local Government Investment Pool (LGIP) as authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized costs which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

As of December 31, 2017, the city held \$219,298 of investments at amortized cost in the LGIP. Average days to maturity of the LGIP was 37 days.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at <http://www.tre.wa.gov>.

Investments in the Clark County Investment Pool (CCIP)

The city is a participant in the Clark County Investment Pool (CCIP), an external investment pool. The city reports its investment in the pool at the fair value amount, which is the same as the value of the pool per share. The responsibility for managing the pool resides with the county treasurer per RCW 36.29.022. Regulatory oversight is provided by the finance committee which, by statute, consists of the county treasurer, the county auditor, and the chair of the Board of County Commissioners. The CCIP does not have a credit rating.

As of December 31, 2017, the city held \$26,425,321 of investments at fair value in the CCIP. Weighted average days to maturity of the CCIP was 240 days.

Additional information on the CCIP is at www.clark.wa.gov/treasurer.

Investments Measured at Fair Value

The city measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles. Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities. Level 2 securities are valued using observable inputs, and Level 3 securities are valued using unobservable inputs. At December 31, 2017 the city had the following investments measured at fair value:

		Fair Value Measurements Using		
		Quoted Prices in	Significant Other	Significant
		Active Markets for	Observable	Unobservable
		Identical Assets	Inputs	Inputs
Investments by Fair Value Level	12/31/2017	(Level 1)	(Level 2)	(Level 3)
Financing Corporation	1,997,490	\$ -	\$ 1,997,490	\$ -
Federal Home Loan Mortgage Corp	996,575	-	996,575	-
Clark County Investment Pool	26,425,321	26,425,321		
Total Investments Measured at Fair Value	<u>\$ 29,419,386</u>	<u>\$ 26,425,321</u>	<u>\$ 2,994,065</u>	<u>\$ -</u>
Investments Measured at Amortized Cost				
Local Government Investment Pool	<u>\$ 219,298</u>			
Investments Measured at Cost				
Certificates of Deposit	<u>\$ 750,000</u>			

NOTE 4 - CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

A. Capital assets activity for the year ended December 31, 2017 is as follows:

	Beginning Balance 01/01/2017	Increases	Decreases	Ending Balance 12/31/2017
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 15,996,830	\$ 63,543	\$ -	\$ 16,060,373
Construction in progress	403,177	4,974,887	3,444,869	1,933,195
Total capital assets, not being depreciated	<u>16,400,007</u>	<u>5,038,430</u>	<u>3,444,869</u>	<u>17,993,568</u>
Capital assets, being depreciated/depleted:				
Buildings	15,094,446	-	-	15,094,446
Machinery & Equipment	4,713,347	18,815	52,933	4,679,229
Infrastructure	78,808,342	5,140,522	851,424	83,097,440
Improvements other than buildings	1,000,801	435,424	-	1,436,225
Total capital assets being depreciated	<u>99,616,936</u>	<u>5,594,761</u>	<u>904,357</u>	<u>104,307,340</u>
Less accumulated depreciation for:				
Buildings	4,776,807	388,155	-	5,164,962
Machinery & Equipment	3,349,420	278,130	50,690	3,576,860
Infrastructure	56,744,198	2,216,421	796,217	58,164,402
Improvements other than buildings	383,129	71,811	-	454,940
Total accumulated depreciation	<u>65,253,554</u>	<u>2,954,517</u>	<u>846,907</u>	<u>67,361,164</u>
Total capital assets, being depreciated, net	<u>34,363,382</u>	<u>2,640,244</u>	<u>57,450</u>	<u>36,946,176</u>
Governmental activities capital assets, net	<u>\$ 50,763,389</u>	<u>\$ 7,678,674</u>	<u>\$ 3,502,319</u>	<u>\$ 54,939,744</u>

	Beginning Balance 01/01/2017	Increases	Decreases	Ending Balance 12/31/2017
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 2,982,132	\$ 151,507	\$ -	\$ 3,133,639
Construction in progress	277,848	591,849	603,212	266,485
Total capital assets, not being depreciated	<u>3,259,980</u>	<u>743,356</u>	<u>603,212</u>	<u>3,400,124</u>
Capital assets, being depreciated/depleted:				
Buildings	1,357,535	-	-	1,357,535
Machinery and equipment	431,147	-	-	431,147
Infrastructure	62,187,484	3,816,312	97,911	65,905,885
Improvements other than buildings	32,884	-	-	32,884
Intangible assets	27,250,748	-	-	27,250,748
Total capital assets being depreciated	<u>91,259,798</u>	<u>3,816,312</u>	<u>97,911</u>	<u>94,978,199</u>
Less accumulated depreciation for:				
Buildings	402,307	33,938	-	436,245
Machinery and equipment	344,616	21,988	-	366,604
Infrastructure	22,998,814	1,666,253	68,535	24,596,532
Improvements other than buildings	3,288	1,644	-	4,932
Intangible assets	12,599,124	1,090,030	-	13,689,154
Total accumulated depreciation	<u>36,348,149</u>	<u>2,813,853</u>	<u>68,535</u>	<u>39,093,467</u>
Total capital assets, being depreciated, net	<u>54,911,649</u>	<u>1,002,459</u>	<u>29,376</u>	<u>55,884,732</u>
Business-type activities capital assets, net	<u>\$ 58,171,629</u>	<u>\$ 1,745,815</u>	<u>\$ 632,588</u>	<u>\$ 59,284,856</u>

Depreciation expense charged to programs of the primary government is as follows:

Governmental Activities	
General Government	\$ 340,087
Public Safety	130,588
Physical Environment	68,315
Transportation	2,015,470
Culture and Recreation	400,057
Total Depreciation - Governmental Activities	<u>\$ 2,954,517</u>

Business-type Activities	
Storm Drainage	\$ 299,976
Water	795,779
Sewer	1,718,098
Total Depreciation -Business-Type Activities	<u>\$ 2,813,853</u>

B. Intangible asset

The city recognizes its future sewer treatment capacity rights in the Discovery Clean Water Alliance's Salmon Creek Treatment Plan in compliance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The city recorded an intangible asset of \$27,250,748 upon completion of expansion phases III and IV of the Salmon Creek Wastewater Treatment Facility. Future capacity rights are amortized over 25 years. See Note 14

C. Capital Construction Commitments

The city has outstanding contractual commitments, which include construction and engineering contracts for capital projects currently in progress. Funding for NW 5th Way was funded through Connect Washington. This project eliminated a signal at the intersection of West Main and 12th Street and created a new access to State Route 503. The LED streetlight conversion project was funded through the Washington Transportation Improvement Board and utility incentives. The city's total outstanding contract obligations are as follows:

Project	Fund	Project to Date	Remaining Commitment
<i>Governmental type construction projects</i>			
NW 5th Way	Capital	\$ 1,566,342	\$ 72,067
LED Street Light Conversion	Street	179,482	333,002
Total		<u>1,745,824</u>	<u>405,069</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These transfers are classified as “other financing sources or uses” in the fund statements. Interfund transfers are used to 1) fund construction and maintenance projects, 2) move certain revenue sources to debt service funds for principal and interest payments, and 3) move unrestricted general fund revenues to finance various programs that the city must account for in other funds in accordance with laws, regulations, or contracts. There were no significant transfers made during the year that do not occur on a routine basis or that are inconsistent with the activities of the fund making the transfer. The interfund transfer activity for the year is as follows:

		Transfers Out				
Transfers In		General Fund	Special Revenue Funds	Capital Funds	Enterprise Fund (Water)	Total Transfers
	General Fund		6,464	90,000		96,464
	Special Revenue Funds	400,000				400,000
	Debt Service Fund	-		1,190,131		1,190,131
	Capital Projects Fund	1,142		655,768		656,910
	Internal Service Funds	150,000		130,002		280,002
	Total	\$ 551,142	\$ 6,464	\$ 2,065,901	\$ -	\$ 2,623,507

NOTE 6 – LEASES

A. Capital Leases

The city entered into lease agreements as lessee for financing the acquisition of public safety vehicles and equipment, information technology equipment, and utility vehicles for water and sewer activities. These lease agreements qualify as capital leases for accounting purposes and are recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	Governmental Activities
Fire engine	488,598
Police vehicles	169,409
Work crew van	31,842
Communications	270,593
Utility vehicles	65,147
Less: accumulated depreciation	<u>(308,143)</u>
Total	<u><u>\$ 717,446</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

Year Ending December 31	Governmental Activities
2018	319,842
2019	228,379
2020	148,463
2021	<u>148,464</u>
Total Minimum Lease Payments	845,148
Less: Interest	<u>(35,283)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 809,865</u></u>

B. Operating Leases

Operating lease obligations are for business machines under contractual agreements. The cost in 2017 for operating leases was \$17,784. The following is a schedule of minimum future rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2017:

2018	\$	19,339
2019		19,545
2020		17,624
2021		16,767
2022		7,880
2023		994
Total	\$	<u>82,149</u>

NOTE 7 – LONG-TERM LIABILITIES

A. General Obligation Bonds

The city issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the city. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by city council, and financed from general revenues.

The city had \$9,005,000 in outstanding general obligation bonds as of December 31, 2017.

Name of Issue	Governmental Purpose	Amount Issued	Issue Date	Maturity Date	Interest Rate	Outstanding 12/31/2017
2010 LTGO Bonds	Acquisition of City Hall	3,045,000	6/11/2010	12/1/2022	3.0%-4.0%	1,320,000
2010A LTGO Bonds	Road Improvements	575,000	12/8/2010	12/31/2018	3.0%-3.5%	125,000
2010B LTGO Bonds	Road Improvements	4,280,000	12/8/2010	12/1/2030	6.25%-7.0%	4,280,000
2011 LTGO Bonds	Park Facilities	5,265,000	11/16/2011	6/1/2026	2.0%-3.3%	3,280,000
Total LTGO Bonds		<u>\$ 13,165,000</u>				<u>\$ 9,005,000</u>

The annual debt service requirements to maturity for general obligation bonds are as follows:

LTGO - Governmental Activities			
	Principal	Interest	Total Requirements
2018	750,000	429,726	1,179,726
2019	930,000	405,726	1,335,726
2020	940,000	367,181	1,307,181
2021	960,000	327,475	1,287,475
2022	975,000	286,225	1,261,225
2023-2027	3,205,000	895,597	4,100,597
2028-2030	1,245,000	176,400	1,421,400
	<u>\$ 9,005,000</u>	<u>\$ 2,888,329</u>	<u>\$ 11,893,329</u>

B. Government Loans

The city receives government loans to finance construction of capital projects in the business-type activity funds and to finance street improvements and the purchase of capital assets into purchase capital assets. Government loans outstanding at year-end are as follows:

Name of Issue	Purpose	Amount Issued	Issue Date	Maturity Date	Interest Rate	Outstanding 12/31/2017
2000 PWTF Loan	Business-type Sewer Lines	1,400,000	5/30/2000	6/1/2020	1.0%	161,996
2003 PWTF Loan	Governmental West Main St	2,000,000	6/30/2003	6/1/2023	0.5%	600,000
		<u>\$ 3,400,000</u>				<u>\$ 761,996</u>

Public Works Trust Fund (PWTF) loan debt service requirements to maturity are as follows:

Governmental Activities				Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2018	100,000	3,000	103,000	53,998	1,620	55,618
2019	100,000	2,500	102,500	53,998	1,080	55,078
2020	100,000	2,000	102,000	54,000	540	54,540
2021	100,000	1,500	101,500	-	-	-
2022	100,000	1,000	101,000	-	-	-
2023	100,000	500	100,500	-	-	-
	<u>\$ 600,000</u>	<u>\$ 10,500</u>	<u>\$ 610,500</u>	<u>\$ 161,996</u>	<u>\$ 3,240</u>	<u>\$ 165,236</u>

C. Revenue Bonds

Water and/or sewer revenue bonds are issued to finance capital projects. Revenue bonds are created by ordinance and adopted by the city council. The city pledges income derived from the acquired or constructed assets to pay debt service.

Restricted assets in the sewer fund contain an amount equal to the sum of one annual installment of the bond as required by bond indenture.

Revenue bonds outstanding at year-end are as follows:

Name of Issue	Purpose	Amount Issued	Issue Date	Maturity Date	Interest Rate	Outstanding 12/31/2017
2012 Revenue Bonds	Sewer Facility	6,909,000	1/25/2012	1/25/2052	3.00%	6,372,140
2015 Revenue Bonds	Water Meters	2,774,409	5/7/2015	5/7/2030	3.26%	2,577,081
		<u>\$ 9,683,409</u>				<u>\$ 8,949,221</u>

Annual debt service requirements to maturity for these bonds are as follows:

2012 Sewer Revenue Bonds			
	Principal	Total Interest	Requirements
2018	107,413	190,365	297,778
2019	110,660	187,118	297,778
2020	114,005	183,773	297,778
2021	117,450	180,328	297,778
2022	121,000	176,778	297,778
2023-2027	662,122	826,768	1,488,890
2028-2032	768,420	720,470	1,488,890
2033-2037	891,783	597,107	1,488,890
2038-2042	1,034,950	453,940	1,488,890
2043-2047	1,463,536	323,132	1,786,668
2048-2052	980,801	59,646	1,040,447
	<u>\$ 6,372,140</u>	<u>\$ 3,899,425</u>	<u>\$ 10,271,565</u>

2015 Water Revenue Bonds			
	Principal	Total Interest	Requirements
2018	134,978	82,398	217,376
2019	145,484	77,871	223,355
2020	156,503	72,995	229,498
2021	168,057	67,753	235,810
2022	180,166	62,128	242,294
2023-2027	1,103,639	211,515	1,315,154
2028-2030	688,254	31,377	719,631
	<u>\$ 2,577,081</u>	<u>\$ 606,037</u>	<u>\$ 3,183,118</u>

D. Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. As of December 31, 2017 the city had no arbitrage excess earnings liability on any of the city's bond issues.

E. Developer Credits

Impact fees and system development charges (SDC) are levied at the time of permit issuance. The developer may be entitled to a nonrefundable credit against the applicable fee component for the fair market value of appropriate dedications of land, new construction, or system improvements. If the amount of the calculated credit is greater than the amount of the fee or charge due, the developer may apply the excess credit toward impact fees or SDCs assessed on other developments within the same service area. Impact fee credits are disclosed as a governmental activity and SDC credits as business-type activities in the government-wide financial statements.

Impact Fee Credits	At 12/31/16	Additions	Applied	At 12/31/17
Traffic Impact Fees	\$ 82,863	\$ 113,828	\$ (64,215)	\$ 132,476
Park Impact Fees		450,242	(116,440)	333,802
Total Impact Fee Credits	<u>\$ 82,863</u>	<u>\$ 564,070</u>	<u>\$ (180,655)</u>	<u>\$ 466,278</u>

System Development Charge Credits	At 12/31/16	Additions	Applied	At 12/31/17
Water SDC Credits	\$ 932	\$ -	\$ -	\$ 932

F. Changes in Long-Term Liabilities

Long-term liability activity of the city for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General obligation bonds	\$ 9,755,000	\$ -	\$ (750,000)	\$ 9,005,000	\$ 750,000
Less deferred amounts					
For issuance premiums (discounts)	101,108	-	(15,729)	85,379	15,569
Total bonds payable	9,856,108	-	(765,729)	9,090,379	765,569
Capital leases	661,653	345,000	(196,788)	809,865	309,013
Government loan	700,000	-	(100,000)	600,000	100,000
Compensated absences	415,181	512,233	(308,560)	618,854	21,170
Net OPEB obligation	617,321	118,536	(35,263)	700,594	-
Net pension obligation	2,552,415	-	(515,361)	2,037,054	-
Impact fee credits	82,863	564,070	(180,655)	466,278	-
Long-term liabilities	<u>\$ 14,885,541</u>	<u>\$ 1,539,839</u>	<u>\$ (2,102,356)</u>	<u>\$ 14,323,024</u>	<u>\$ 1,195,752</u>
<u>Business-type Activities</u>					
Revenue bonds	9,178,450	-	(229,229)	8,949,221	242,392
Government loan	215,994	-	(53,998)	161,996	53,998
Compensated absences*	102,958	97,568	(81,413)	119,113	-
Net pension obligation	812,469	-	(182,296)	630,173	-
System development charge credits	932	-	-	932	-
Long-term liabilities	<u>\$ 10,310,803</u>	<u>\$ 97,568</u>	<u>\$ (546,936)</u>	<u>\$ 9,861,435</u>	<u>\$ 296,390</u>

* No anticipated payouts for compensated absences within one year

NOTE 8 – RISK MANAGEMENT

The City of Battle Ground 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.

In the past three years, there have been no settlements that exceeded coverage.

NOTE 9– PROPERTY TAXES

The Clark County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar	
January 1	Tax is levied and becomes an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installment payments is due
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The city may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, subject to limitations by the Washington State Constitution and the Revised Code of Washington 84.55.0410.

The city's regular levy for 2017 collections was \$1.59 per \$1,000 on an assessed valuation of \$1,824,114,773 for a total regular levy of \$2,893,525.

NOTE 10 – PENSION PLANS

A. Employee Retirement Systems and Pension Plan

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (2,667,227)
Pension assets	\$ 1,013,955
Deferred outflows of resources	\$ 552,677
Deferred inflows of resources	\$ (726,046)
Pension expense/expenditures	\$ 303,287

State Sponsored Pension Plans

Substantially all city full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), 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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor

and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by state statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

*For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

*For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July – December 2017

The city's actual PERS plan contributions were \$184,536 to PERS Plan 1 and \$258,577 to PERS Plan 2/3 for the year ended December 31, 2017.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2017		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The city's actual contributions to the plan were \$113,887 for the year ended December 31, 2017.

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. For the state fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$69,073.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of

current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/ (Asset)

The table below presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	\$ 1,673,256	\$ 1,373,558	\$ 1,113,955
PERS 2/3	\$ 3,485,279	\$ 1,293,669	\$ (502,031)
LEOFF 1	\$ (58,297)	\$ (78,592)	\$ (96,021)
LEOFF 2	\$ 202,411	\$ (935,363)	\$ (1,862,374)

Pension Plan Fiduciary Net Position

Detailed information about the state's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the city reported a total pension liability of \$2,667,227 for its proportionate share of the net pension liabilities and \$1,013,955 for its share of net pension assets as follows:

Plan	Liability or Asset
PERS 1	\$ 1,373,558
PERS 2/3	\$ 1,293,669
LEOFF 1	\$ (78,592)
LEOFF 2	\$ (935,363)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for state pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension asset, the related state support, and the total portion of the net pension asset that was associated with the city were as follows:

	LEOFF 1 ASSET	LEOFF 2 ASSET
LEOFF – Employer’s proportionate share	\$ (78,592)	\$ (935,363)
LEOFF – State’s proportionate share of the net pension asset associated with the employer	(531,594)	(606,753)
Total	\$ (610,186)	\$ (1,542,116)

At June 30, the city’s proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.02846%	0.02895%	0.00048%
PERS 2/3	0.03647%	0.03723%	0.00076%
LEOFF 1	0.00511%	0.00518%	0.00007%
LEOFF 2	0.06897%	0.06741%	-0.00157%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1. LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 109,110
PERS 2/3	172,432
LEOFF 1	(13,324)
LEOFF 2	35,070
Total	\$ 303,288

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (51,257)
Contributions subsequent to the measurement date	95,954	-
Total	\$ 95,954	\$ (51,257)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 131,079	\$ (42,547)
Net difference between projected and actual investment earnings on pension plan investments	-	(344,861)
Changes of assumptions	13,741	-
Changes in proportion and differences between contributions and proportionate share of contributions	34,641	(28,244)
Contributions subsequent to the measurement date	142,882	
Total	\$ 322,343	\$ (415,652)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (7,303)
Total	\$ -	\$ (7,303)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 41,111	\$ (35,471)
Net difference between projected and actual investment earnings on pension plan investments	-	(209,996)
Changes of assumptions	1,126	-
Changes in proportion and differences between contributions and proportionate share of contributions	29,004	(6,367)
Contributions subsequent to the measurement date	63,139	
Total	\$ 134,380	\$ (251,834)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 172,190	\$ (78,018)
Net difference between projected and actual investment earnings on pension plan investments	-	(613,417)
Changes of assumptions	14,867	-
Changes in proportion and differences between contributions and proportionate share of contributions	63,645	(34,611)
Contributions subsequent to the measurement date	301,975	
Total	\$ 552,677	\$ (726,046)

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2018	\$ (34,647)	\$ (141,085)	\$ (4,583)	\$ (93,590)
2019	10,938	30,198	1,236	24,730
2020	(2,540)	(28,097)	(494)	(11,531)
2021	(25,008)	(134,252)	(3,462)	(86,736)
2022	-	16,107	-	(2,404)
Thereafter	-	\$ 20,938	-	\$ (11,062)

B. Other Postemployment Benefits

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the city provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1997 under a single-employer defined benefit healthcare plan administered by the city. State statute provides that the city's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Coverage through one of the city's employee medical insurance programs is provided to retirees. For the year ended December 31, 2017, three retired LEOFF 1 law enforcement officers received required coverage.

Funding Policy

Funding for LEOFF 1 retiree healthcare costs is provided by the city as required by RCW 41.26. There are no active employee or retiree contributions. Healthcare costs are funded on a pay-as-you-go basis and payments are made from a combination of current budget funding authority and a LEOFF 1 Reserve Fund.

Annual OPEB Cost and Net OPEB Obligation

At year-end the net OPEB obligation of \$700,594 remains unfunded. The city contributed \$35,263 during the year ended December 31, 2017. This amount differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go basis. The ARC is the amount that, if contributed yearly, would fully fund the health subsidies by the end of the 15 year amortization. The ARC is made up of the normal yearly cost plus the amortization of the current unfunded actuarial accrued liability.

The City of Battle Ground used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and net OPEB obligation (NOO) are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The following table shows the components of the city's annual OPEB cost for the fiscal year ending December 31, 2017, the amount actually contributed to the plan, and changes in the city's net OPEB obligation.

Annual required contribution	\$	149,366
Interest on net OPEB obligation		24,693
Adjustments to the annual required contribution		(55,523)
Annual OPEB cost		118,536
Contributions		(35,263)
Increase in net OPEB obligation		83,273
Net OPEB obligation, beginning of year		617,321
NET OPEB obligation, ending of year	\$	700,594

The city's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year ending 12/31	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 118,536	\$ 35,263	29.7%	\$ 700,594
2016	\$ 144,685	\$ 37,928	26.2%	\$ 617,321
2015	\$ 167,451	\$ 45,358	27.1%	\$ 510,564

Funding Status and Funding Progress

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The most recent actuarial date is June 30, 2016. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Actuarial cost method	Entry Age
Asset valuation method	N/A
Discount rate	3.75%
Projected payroll growth	3.75%
Inflation rate	3.0%
Long-term healthcare inflation rate	4.5%
Amortization method	Level Dollar
Amortization period	15 year, closed

NOTE 11 – HEALTH AND WELFARE

The City of Battle Ground is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1

million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 12 – CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities based on available information. In the opinion of management, the city's insurance policies are adequate to pay all known or pending claims.

The city participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

NOTE 13 - RECEIVABLE BALANCES

Amounts are aggregated into a single accounts receivable line for governmental activities on the *Statement of Net Position*. Below is the detail of receivables for the general, nonmajor governmental funds and internal service funds in the aggregate:

Receivables	General	Capital Projects	Nonmajor Governmental	Internal Service	Total Governmental Activities
Accounts	24,215	-	227	4,500	28,941
Property taxes	57,262	-		-	57,262
Sales taxes	614,354	-		-	614,354
Motor Vehicle Fuel Tax	-	-		-	-
Other taxes	545,859	-	25,111	-	570,969
Municipal court	226,856	-		-	226,856
State	88,677	-	67,959	-	156,636
Grants	16,321	443,075	-	-	459,396
Investment interest	3,623	-	5,337	451	9,411
	<u>\$ 1,577,167</u>	<u>\$ 443,075</u>	<u>\$ 98,633</u>	<u>\$ 4,951</u>	<u>\$ 2,123,826</u>

NOTE 14 – JOINT VENTURE

Discovery Clean Water Alliance

The Discovery Clean Water Alliance (Alliance) was formed under the Joint Municipal Utility Services Authority Act, Chapter 39.106 RCW. The purpose of the Alliance is to provide cooperative, environmentally sound, and cost-effective municipal wastewater transmission and treatment to participating members. The four Alliance members, Clark County, Clark Regional Wastewater District, City of Battle Ground, and the City of Ridgefield, signed an Interlocal Formation Agreement (IFA) on September 27, 2012. The Alliance was incorporated with the Washington Secretary of State on January 4, 2013 and was fully operational as of January 1, 2015. The Alliance is governed by a Board of Directors (Board) comprised of one elected official appointed from each of the participating members.

Annual regional service charges are paid by the City of Battle Ground to the Alliance. The city's responsibility for regional asset operating costs is based on actual use of regional services during the previous year (or years) as measured by average annual flow. Responsibility for capital costs is based on agreed-upon allocated capacity. The city paid the Alliance regional service charges of \$2,590,409 in 2017.

The Alliance has a separate audit and financial information about the Alliance is on their website at www.discoverycwa.org.

NOTE 15 – OTHER DISCLOSURES

The Clark Regional Emergency Services Agency (CRESA) was created by agreement under the Interlocal Cooperation Act (RCW 39.34) between the City of Battle Ground, Clark County, and various other cities and political districts. CRESA provides regional 911 dispatch services, a regional 800 MHz and conventional radio system and services, and regional emergency management services in all incorporated and unincorporated areas of Clark County. The city has not reported an equity interest in CRESA as a joint venture since the city's measurable equity interest is not readily determinable. The city paid CRESA service charges of \$323,435 in 2017.

On October 24, 2017, the Clark County Council approved an Ordinance and Charter establishing CRESA as a Public Development Authority. Bylaws were approved by the CRESA administrative board and revised

agreements with founding public agencies and customers were drafted. The City of Battle Ground Council approved this revised agreement on January 16, 2018.

Financial statements for CRESA can be obtained from CRESA, 710 W. 13th Street, Vancouver, Washington 98660.

NOTE 16 – ACCOUNTING AND REPORTING CHANGES

For the fiscal year ended December 31, 2017, the city considered or implemented the following GASB pronouncements:

- A. GASB Statement No. 77, *Tax Abatement Disclosures*. Effective for fiscal years beginning after June 15, 2015, this statement requires disclosure when governments enter into tax abatement agreements.

The State of Washington has entered into tax abatement agreements under the Revised Code of Washington 82.60, “Tax Deferrals for Investment Projects in Rural Counties.” These abatement agreements may have local impacts to the City of Battle Ground’s tax revenues. However, data is confidential and cannot be disclosed. The Washington State Department of Revenue is prohibited from disclosing tax information for less than three taxpayers for either state or local estimates.

- B. GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. Effective for reporting periods beginning after June 15, 2016. Not applicable - the city does not report any component units.
- C. GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, Effective for periods beginning after December 15, 2016. Not applicable to the city
- D. GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. Effective for reporting periods beginning after June 15, 2016. See Note 10 for implementation

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Employment Benefits Schedule of Funding Progress

City of Battle Ground
LEOFF 1 Retiree Healthcare Plan
As of December 31
Last 4 Fiscal Years

Year Ended December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2017	0	\$ 1,660,708	\$ 1,660,708	0	N/A	N/A
2016	0	1,892,161	1,892,161	0	N/A	N/A
2015	0	2,077,494	2,077,494	0	N/A	N/A
2014	0	1,408,153	1,408,153	0	N/A	N/A

NOTE 1 - Alternative method used for valuation

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30
Last Four Fiscal Years

<u>Year Ended June 30,</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability</u>	<u>Employer's covered employee payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	0.028947%	\$ 1,373,558	\$ 3,656,273	37.57%	61.24%
2016	0.028463%	1,528,597	3,693,562	41.39%	57.03%
2015	0.029242%	1,529,629	3,351,697	45.64%	59.10%
2014	0.028952%	1,458,471	3,191,502	45.70%	61.19%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30
Last Four Fiscal Years

<u>Year Ended June 30</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability</u>	<u>Employer's covered employee payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	0.037233%	\$ 1,293,669	\$ 3,656,273	35.38%	90.97%
2016	0.036471%	1,836,286	3,693,562	49.72%	85.82%
2015	0.037773%	1,349,651	3,351,697	40.27%	89.20%
2014	0.037276%	753,483	3,191,502	23.61%	93.29%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30
Last Four Fiscal Years

<u>Year Ended June 30</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability</u>	<u>State's proportionate share of the net pension liability (asset) associated with the employer</u>	<u>TOTAL</u>	<u>Employer's covered employee payroll</u>	<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	0.005180%	\$ (78,592)	\$ (531,594)	\$ (610,186)	N/A	N/A	135.96%
2016	0.005107%	(52,617)	(355,898)	(408,515)	N/A	N/A	123.74%
2015	0.005052%	(60,888)	(411,845)	(472,733)	N/A	N/A	127.36%
2014	0.005011%	(60,773)	(411,067)	(471,840)	N/A	N/A	126.91%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30
Last Four Fiscal Years

Year Ended June 30	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	State's proportionate share of the net pension liability (asset) associated with the employer	TOTAL	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.067405%	\$ (935,363)	\$ (606,753)	\$ (1,542,116)	\$ 2,109,925	-44.33%	113.36%
2016	0.068973%	(401,168)	(261,532)	(662,700)	2,255,979	-17.78%	106.04%
2015	0.072053%	(740,561)	(489,682)	(1,230,243)	2,091,273	-35.41%	111.67%
2014	0.070077%	(929,952)	(607,276)	(1,537,228)	1,950,149	-47.69%	116.75%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground
Schedule of Employer Contributions
PERS 1
As of December 31
Last Four Fiscal Years

Year Ended December 31	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	\$ 184,536	\$ (184,536)	\$ -	\$ 3,764,693	4.90%
2016	168,403	(168,403)	-	3,530,474	4.77%
2015	148,282	(148,282)	-	3,382,133	4.38%
2014	132,646	(132,646)	-	3,288,709	4.03%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground
Schedule of Employer Contributions
PERS 2/3
As of December 31
Last Four Fiscal Years

<u>Year Ended December 31</u>	<u>Statutorily or contractually required contributions</u>	<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employer payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2017	\$ 258,577	\$ (258,577)	\$ -	\$ 3,764,693	6.87%
2016	219,948	(219,948)	-	3,530,474	6.23%
2015	190,375	(190,375)	-	3,382,133	5.63%
2014	164,325	(164,325)	-	3,288,709	5.00%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground
Schedule of Employer Contributions
LEOFF 2
As of December 31
Last Four Fiscal Years

<u>Year Ended December 31</u>	<u>Statutorily or contractually required contributions</u>	<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered employer payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2017	\$ 113,887	\$ (113,887)	\$ -	\$ 2,207,554	5.16%
2016	106,584	(106,584)	-	2,110,577	5.05%
2015	104,689	(104,689)	-	2,073,049	5.05%
2014	103,449	(103,449)	-	2,048,503	5.05%

City of Battle Ground
Notes to Required Supplemental Information - Pension

As of December 31
Last Four Fiscal Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2015. Therefore, no data is available for years prior to 2014.

PERS 1 employer contributions include the PERS 1 employer contributions of PERS 2 and PERS 3, which are required to fund the unfunded actuarially accrued liability pursuant to RCW 41.45.060.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms, or in the use of different assumptions.

Note 3: LEOFF 1

For LEOFF I, there is a net pension asset. However, there are no active employees participating in the plan and no required contributions because the plan is fully funded. Therefore, covered payroll and contributions as a percent of covered payroll are displayed as N/A.

Note 4: Covered payroll

Covered payroll has been presented in accordance with GASB 82, Pension Issues. Covered payroll includes all payroll on which a contribution is based.

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.

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

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