



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Duvall

King County

For the period January 1, 2016 through December 31, 2016

Published September 18, 2017

Report No. 1019869





Office of the Washington State Auditor
Pat McCarthy

September 18, 2017

Mayor and City Council
City of Duvall
Duvall, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Duvall
King County
January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Duvall are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Duvall
King County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Duvall
Duvall, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Duvall, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 12, 2017.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of 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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 12, 2017.

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.

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Pat McCarthy

State Auditor

Olympia, WA

September 12, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Duvall
King County
January 1, 2016 through December 31, 2016**

Mayor and City Council
City of Duvall
Duvall, Washington

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

We have audited the compliance of the City of Duvall, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Purpose of this Report

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

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

September 12, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Duvall King County January 1, 2016 through December 31, 2016

Mayor and City Council
City of Duvall
Duvall, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Duvall, King County, Washington, for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Duvall, for the year ended December 31, 2016, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Duvall, as of December 31, 2016, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2017 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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Pat McCarthy

State Auditor

Olympia, WA

September 12, 2017

FINANCIAL SECTION

**City of Duvall
King County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016
Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

City of Duvall
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 GENERAL FUND	101 STREET FUND	106 BIG ROCK BALL PARK FUND
Beginning Cash and Investments					
30810	Reserved	5,003,891	737,707	-	-
30880	Unreserved	6,445,662	354,544	121,133	27,760
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	3,903,701	3,131,311	278,102	-
320	Licenses and Permits	407,245	395,044	12,201	-
330	Intergovernmental Revenues	2,128,723	255,118	166,061	-
340	Charges for Goods and Services	6,315,364	322,701	-	16,740
350	Fines and Penalties	131,117	58,409	-	-
360	Miscellaneous Revenues	172,876	86,028	479	147
Total Revenues:		13,059,026	4,248,611	456,843	16,887
Expenditures					
510	General Government	1,154,451	881,894	-	-
520	Public Safety	2,120,037	2,120,037	-	-
530	Utilities	3,529,709	-	-	-
540	Transportation	704,960	193,108	436,539	-
550	Natural and Economic Environment	578,415	578,415	-	-
560	Social Services	2,556	2,556	-	-
570	Culture and Recreation	398,913	309,761	-	65,501
Total Expenditures:		8,489,041	4,085,771	436,539	65,501
Excess (Deficiency) Revenues over Expenditures:		4,569,985	162,840	20,304	(48,614)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,543,906	155,567	-	49,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	401,483	276	-	-
Total Other Increases in Fund Resources:		1,945,389	155,843	-	49,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,568,781	-	5,468	-
591-593, 599	Debt Service	791,232	-	-	-
597	Transfers-Out	1,543,906	-	23,995	2,612
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		6,903,919	-	29,463	2,612
Increase (Decrease) in Cash and Investments:		(388,546)	318,683	(9,159)	(2,226)
Ending Cash and Investments					
5081000	Reserved	6,044,988	934,496	111,973	25,535
5088000	Unreserved	5,016,011	476,439	-	-
Total Ending Cash and Investments		11,060,999	1,410,935	111,973	25,535

The accompanying notes are an integral part of this statement.

City of Duvall
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		107 SENSITIVE AREAS MITIGATION	304 REAL ESTATE EXCISE TAX 1 FUND	305 REAL ESTATE EXCISE TAX 2 FUND	306 MAIN STREET IMPROVEMENT
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	38,419	431,383	327,438	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	247,144	247,144	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	250,000	250,000	1,176,119
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	200	2,761	2,025	1,332
Total Revenues:		200	499,905	499,169	1,177,451
Expenditures					
510	General Government	-	12,604	12,604	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	12,604	12,604	-
Excess (Deficiency) Revenues over Expenditures:		200	487,301	486,565	1,177,451
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	1,339,339
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	1,339,339
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	227,447	227,888	2,310,318
591-593, 599	Debt Service	-	-	-	136
597	Transfers-Out	-	-	75,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	227,447	302,888	2,310,454
Increase (Decrease) in Cash and Investments:		200	259,854	183,677	206,336
Ending Cash and Investments					
5081000	Reserved	38,619	691,236	511,115	206,334
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		38,619	691,236	511,115	206,334

The accompanying notes are an integral part of this statement.

City of Duvall
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		307 STREET CAPITAL IMPROVEMENT	308 PARKS CAPITAL IMPROVEMENT	401 WATER FUND	402 SEWER FUND
Beginning Cash and Investments					
30810	Reserved	-	750,122	-	3,017,391
30880	Unreserved	686,621	-	3,130,298	680,414
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	4,800	15,412	-	-
340	Charges for Goods and Services	224,489	150,745	2,067,964	2,352,037
350	Fines and Penalties	-	-	72,708	-
360	Miscellaneous Revenues	2,357	3,962	48,128	18,466
Total Revenues:		231,646	170,119	2,188,800	2,370,503
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	1,469,269	1,482,356
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	23,651	-	-
Total Expenditures:		-	23,651	1,469,269	1,482,356
Excess (Deficiency) Revenues over Expenditures:		231,646	146,468	719,531	888,147
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	398,707
Total Other Increases in Fund Resources:		-	-	-	398,707
Other Decreases in Fund Resources					
594-595	Capital Expenditures	97,631	116,387	74,638	1,446,339
591-593, 599	Debt Service	-	-	224,836	566,260
597	Transfers-Out	506,500	-	334,056	575,747
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		604,131	116,387	633,530	2,588,346
Increase (Decrease) in Cash and Investments:		(372,485)	30,081	86,001	(1,301,492)
Ending Cash and Investments					
5081000	Reserved	314,136	780,203	680,269	1,242,025
5088000	Unreserved	-	-	2,536,032	1,154,285
Total Ending Cash and Investments		314,136	780,203	3,216,301	2,396,310

The accompanying notes are an integral part of this statement.

City of Duvall
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		404 STORM DRAINAGE FUND	501 VEHICLE & EQUIP MAINTENANCE	502 IT FUND	503 BUILDING MAINTENANCE FUND
Beginning Cash and Investments					
30810	Reserved	298,671	200,000	-	-
30880	Unreserved	257,044	314,701	41,488	34,419
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	11,213	-	-	-
340	Charges for Goods and Services	703,823	134,554	204,910	137,401
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,273	2,701	317	700
Total Revenues:		718,309	137,255	205,227	138,101
Expenditures					
510	General Government	-	-	150,961	96,388
520	Public Safety	-	-	-	-
530	Utilities	578,084	-	-	-
540	Transportation	-	75,313	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		578,084	75,313	150,961	96,388
Excess (Deficiency) Revenues over Expenditures:		140,225	61,942	54,266	41,713
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	2,500	-	-
Total Other Increases in Fund Resources:		-	2,500	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	9,779	52,564	-	322
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	25,996	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		35,775	52,564	-	322
Increase (Decrease) in Cash and Investments:		104,450	11,878	54,266	41,391
Ending Cash and Investments					
5081000	Reserved	283,447	200,000	-	25,600
5088000	Unreserved	376,715	326,576	95,754	50,210
Total Ending Cash and Investments		660,162	526,576	95,754	75,810

The accompanying notes are an integral part of this statement.

City of Duvall
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	633 TREASURER'S TRUST FUND	634 POLICE COALITION FUND
308	Beginning Cash and Investments	224,788	4,661	220,127
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	116,778	115,482	1,296
510-570	Expenditures	221,424	-	221,424
580-590	Other Decreases and Financing Uses	112,050	112,050	-
	Net Increase (Decrease) in Cash and Investments:	(216,696)	3,432	(220,128)
508	Ending Cash and Investments	8,092	8,092	-

The accompanying notes are an integral part of this statement.

City of Duvall
Notes to the Financial Statements
For the year ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

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

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The City adopts annual appropriated budgets for all funds, with the exception of the Fiduciary Funds and Agency Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

		Final Appropriated	Actual	
<u>Fund</u>	<u>Description</u>	<u>Amounts</u>	<u>Expenditures</u>	<u>Variance</u>
001	General Fund	\$ 5,416,734.48	\$ 4,238,269.27	\$ 1,178,465.21
002	Contingency Fund	\$ 180,614.90	\$ 18,000.00	\$ 162,614.90
101	Street Fund	\$ 565,553.56	\$ 466,002.39	\$ 99,551.17
106	Big Rock Ball Park Maintenance	\$ 96,800.15	\$ 68,112.64	\$ 28,687.51
107	Sensitive Areas Mitigation Fund	\$ 38,468.73	\$ -	\$ 38,468.73
206	2016 LTGO Main St Debt Service	\$ 3,000,000.00	\$ -	\$ 3,000,000.00
304	Real Estate Excise Tax Fund 1	\$ 886,982.61	\$ 240,051.08	\$ 646,931.53
305	Real Estate Excise Tax Fund 2	\$ 783,038.17	\$ 315,491.96	\$ 467,546.21
306	Main St Improvement Fund	\$ 9,031,625.00	\$ 2,310,455.97	\$ 6,721,169.03
307	Street CIP Fund	\$ 937,106.17	\$ 604,131.21	\$ 332,974.96
308	Parks CIP Fund	\$ 1,504,572.55	\$ 140,037.93	\$ 1,364,534.62
401	Water Fund	\$ 4,623,667.46	\$ 1,874,220.00	\$ 2,749,447.46
402	Sewer Fund	\$ 4,148,920.86	\$ 2,104,993.03	\$ 2,043,927.83
404	Storm Drainage Fund	\$ 1,564,156.06	\$ 613,827.16	\$ 950,328.90
407	Water CIP Fund	\$ 594,843.48	\$ 228,576.57	\$ 366,266.91
408	Sewer CIP Fund	\$ 2,670,955.79	\$ 1,965,710.43	\$ 705,245.36
409	Storm Drainage CIP Fund	\$ 86,436.00	\$ 34.28	\$ 86,401.72
410	Bond Redemption Fund	\$ 458,423.72	\$ 440,705.00	\$ 17,718.72
411	Bond Reserve Fund	\$ 262,843.44	\$ 400.00	\$ 262,443.44
501	Equipment Fund	\$ 650,252.63	\$ 127,877.52	\$ 522,375.11
502	IT Fund	\$ 246,242.40	\$ 150,961.93	\$ 95,280.47
503	Building Maintenance Fund	\$ 166,395.30	\$ 96,711.15	\$ 69,684.15
	Totals	\$ 37,914,633.46	\$ 16,004,569.52	\$ 21,910,063.94

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

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

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

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

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

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

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

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

Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Risk Management

The city of Duvall is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 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 \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 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, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

I. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

Contingency Fund Reserve per council resolution	\$162,694
All expenditures require prior approval of City Council by Ordinance	
Fund Balance Reserve Requirements per council resolution	\$2,841,847
Per Fiscal Policy, includes 17% General Fund Reserve, \$25k disaster	
Prep, Equipment replacement fund of \$200k and Utility Funds Reserves	
New for 2016- \$25.6k in Insurance Deductible Reserve	
All require Council Ordinance to spend	
Additional General Fund Restrictions include donations of \$10k for Art,	
\$3,888 for Stage Donations, Imprest Cash \$1k and Drug Enforcement	\$26,296
funds of \$11.4k	
Special Revenue Funds	\$176,127
Streets, Parks and Sensitive Area mitigation	
Capital Improvement Funds	\$2,503,024
Real Estate Excise Taxes, Parks and Roads Impact Fees	
DOE Loan Reserves	\$335,000
Water/Sewer Revenue Bond Reserves	\$159,000
Loan/Bond Reserves set by loan terms and bond covenants	
TOTAL	\$6,203,988

Note 2 – Deposits and Investments

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

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

Investments are reported at original cost. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	<u>City of Duvall's Own Investment</u>	<u>Total</u>
State Treasurer's Local Investment Pool (LGIP)	\$6,546,472.44	\$6,546,472.44
Bank of America Market Rate Savings	\$1,190,347.20	\$1,190,347.20
US Government Securities, US Bank	\$3,010,034.00	\$3,010,034.00
General Checking	\$ 314,146.00	\$ 314,146.00
Total Deposits and Investments at original costs	<u>\$11,060,999.60</u>	<u>\$11,060,999.60</u>

Note 3 - Property Tax

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

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

The City's regular levy for the year 2016 was \$1.40068 per \$1,000 on an assessed valuation of \$977,248,539 for a total regular levy of \$1,368,812.48.

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of City and summarizes the City's debt transactions for year ended December 31, 2016.

The debt service requirements for revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$766,563.85	\$26,291.88	\$792,855.73
2018	\$457,647.40	\$15,282.76	\$472,930.16
2019	\$324,264.34	\$10,290.82	\$334,555.16
2020	\$325,889.38	\$8,665.78	\$334,555.16
2021	\$327,522.57	\$7,032.59	\$334,555.16
2022- 2026	\$1,159,309.07	\$11,634.19	\$1,170,943.26
TOTAL	<u>\$ 3,361,196.61</u>	<u>\$ 79,198.02</u>	<u>\$ 3,440,394.63</u>

*For 2016 the City of Duvall does not hold any general obligation debt.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

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

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

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

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

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

At June 30, 2016 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.017164%	\$921,788
PERS 2/3	0.021970%	\$1,106,172
PSERS 2		
LEOFF 1		
LEOFF 2	0.037297%	(\$216,931)
VFFRPF		

LEOFF Plan 2

The City also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 6 - Other Disclosures

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

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

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

Contingencies and litigation. In the normal course of its various operations, the City is involved in lawsuits and is the recipient of claims for damages alleging that the City is responsible for damages incurred by third parties. Claims and/or litigation arise in areas such as building, zoning, sewer construction and other land-use regulations, as well as other areas. These claims or lawsuits are relatively natural consequences of conducting the City's business. Please refer to Risk Management Note 1(h). In the opinion of management, the City's insurance policies and insurance reserves are adequate to pay all known or pending claims.

Subsequent events:

- On November 8, 2016 the voters of the City of Duvall approved Proposition 1 authorizing a levy lid lift to increase the City's regular property tax levy to (in order of priority): finance improvements to the Big Rock Ballfield; employ a full-time school resource officer; and make strategic improvements to the City's information technology system.
- On February 7, 2017 Ordinance 1212 was adopted at the regularly scheduled City Council meeting. Ordinance 1212 authorized the issuance of Limited Tax General Obligation (LTGO) bonds in the amount of \$4,865,000 via private placement with JPMorgan Chase Bank, NA, of Portland, Oregon. \$3,004,970.18 of the proceeds of these bonds is to be utilized for the City's portion of the Main Street South Reconstruction project and the remaining \$1,801,872.32 will be utilized for the City's portion of the Big Rock Ballpark Renovation project. The remaining balance pays for issuance costs of the bonds. The Bond is a general obligation bond of the City. Principal of the Bond is payable annually on December 1 of each year from 2017 to 2031, inclusive. Interest on the Bond is payable semiannually on each June 1 and December 1, commencing on December 1, 2017. The Bond is payable from the proceeds of taxes levied against all of the taxable property located within the City and other funds available therefor.

City of Duvall
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	Revenue Debt, Sewer Refunding Bonds	12/1/2018	780,000	-	215,000	565,000
252.11	Revenue Debt, Water Bonds	8/1/2016	200,000	-	200,000	-
259.12	GO & Rev Compensated Absences		312,000	22,444	2,559	331,885
263.82	Revenue Debt, PWTF for water main	6/30/2017	31,053	-	15,525	15,528
263.82	Revenue Debt, SRF for Wastewater Plant	6/20/2025	3,100,109	-	319,438	2,780,671
264.30	Net Pension Liability		1,716,910	311,050	-	2,027,960
Total Revenue and Other (non G.O.) Debt/Liabilities:			6,140,072	333,494	752,522	5,721,044
Total Liabilities:			6,140,072	333,494	752,522	5,721,044

City of Duvall

Expenditures

City of Duvall

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Notes 1 and 7 are required for all governments. Disclose other notes only if applicable to the government's circumstances.

Note 1 – Basis of Accounting

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

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 7 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov