



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Carnation

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

Published October 22, 2018

Report No. 1022433





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

October 22, 2018

Council
City of Carnation
Carnation, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10
About the State Auditor's Office.....	24

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

Council
City of Carnation
Carnation, 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 Carnation, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 15, 2018.

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.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

October 15, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Carnation January 1, 2017 through December 31, 2017

Council
City of Carnation
Carnation, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Carnation 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 Carnation, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Carnation, as of December 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 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.



Pat McCarthy

State Auditor

Olympia, WA

October 15, 2018

FINANCIAL SECTION

City of Carnation January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

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

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	201 LTGO Bond Redemption
Beginning Cash and Investments					
30810	Reserved	635,205	578,003	-	-
30880	Unreserved	4,628,592	707,074	149,239	2
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	1,488,361	1,093,138	31,121	-
320	Licenses and Permits	285,775	177,725	89,000	-
330	Intergovernmental Revenues	383,597	50,858	45,011	-
340	Charges for Goods and Services	2,100,403	325,584	-	-
350	Fines and Penalties	4,920	-	-	-
360	Miscellaneous Revenues	943,206	31,500	1,100	-
Total Revenues:		5,206,261	1,678,804	166,231	-
Expenditures					
510	General Government	358,339	332,681	3,015	-
520	Public Safety	607,596	606,457	380	-
530	Utilities	1,627,159	31,673	-	-
540	Transportation	182,432	25,002	156,455	-
550	Natural and Economic Environment	387,467	387,467	-	-
560	Social Services	5,490	5,490	-	-
570	Culture and Recreation	63,179	63,179	-	-
Total Expenditures:		3,231,661	1,451,949	159,849	-
Excess (Deficiency) Revenues over Expenditures:		1,974,599	226,856	6,382	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	26,865	-	-	-
397	Transfers-In	35,000	35,000	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	226	226	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		62,091	35,226	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	634,250	128,219	6,071	-
591-593, 599	Debt Service	616,168	-	-	-
597	Transfers-Out	35,000	-	5,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	226	226	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,285,644	128,445	11,071	-
Increase (Decrease) in Cash and Investments:		751,046	133,637	(4,689)	-
Ending Cash and Investments					
5081000	Reserved	657,668	589,412	-	-
5088000	Unreserved	5,357,175	829,302	144,550	2
Total Ending Cash and Investments		6,014,844	1,418,714	144,550	2

The accompanying notes are an integral part of this statement.

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

		301 Street Capital Improvement	401 Water & Sewer Utility Fund	406 Landfill Financial Assurance
Beginning Cash and Investments				
30810	Reserved	-	57,202	-
30880	Unreserved	459,475	3,161,865	150,937
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	314,339	49,763	-
320	Licenses and Permits	-	19,050	-
330	Intergovernmental Revenues	287,729	-	-
340	Charges for Goods and Services	-	1,703,227	71,591
350	Fines and Penalties	-	4,920	-
360	Miscellaneous Revenues	1,115	908,234	1,256
Total Revenues:		603,182	2,685,196	72,848
Expenditures				
510	General Government	13	21,246	1,384
520	Public Safety	-	759	-
530	Utilities	-	1,522,777	72,709
540	Transportation	976	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		989	1,544,782	74,093
Excess (Deficiency) Revenues over Expenditures:		602,194	1,140,412	(1,246)
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	26,865	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	26,865	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	371,033	128,928	-
591-593, 599	Debt Service	-	616,168	-
597	Transfers-Out	-	30,000	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		371,033	775,096	-
Increase (Decrease) in Cash and Investments:		231,161	392,181	(1,246)
Ending Cash and Investments				
5081000	Reserved	-	68,257	-
5088000	Unreserved	690,636	3,542,994	149,692
Total Ending Cash and Investments		690,636	3,611,250	149,692

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

		Total for All Funds (Memo Only)	Investment Trust	Agency
308	Beginning Cash and Investments	57,255	57,255	-
388 & 588	Prior Period Adjustment, Net	-	-	-
310-390	Additions	329,411	2,191	327,219
510-590	Deductions	89,653	-	89,653
	Net Increase (Decrease) in Cash and Investments:	239,758	2,191	237,566
508	Ending Cash and Investments	297,012	59,446	237,566

The accompanying notes are an integral part of this statement.

CITY OF CARNATION
NOTES TO THE FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Carnation was incorporated in 1912 and operates under the laws of the state of Washington applicable to a council-manager form of government. The City of Carnation is a general purpose local government and provides general administrative services, water and sewer utility services, storm drainage and street maintenance and improvements, parks and recreation, contracted garbage and public safety services. The city uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

Basis of Accounting

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

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

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

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

b. Budgets

Annual appropriated budgets are adopted for all funds. The financial statements include budgetary comparisons for those funds. Annual appropriated budgets are adopted at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for all 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 budget were as follows:

FUND	FINAL APPROPRIATED	ACTUAL EXPENDITURES	VARIANCE
General Fund			
Current Exp	\$ 1,742,810	\$ 1,486,269	\$ 256,541
Rev. Stabiliz.	\$ -	\$ -	\$ -
Contingency	\$ -	\$ -	\$ -
**Cemetery Ops	\$ 17,107	\$ 15,558	\$ 1,549
Cemetery Imp	\$ -	\$ -	\$ -
Equipment	\$ 16,000	\$ 4,669	\$ 11,331
Parks Develop	\$ 134,034	\$ 123,265	\$ 10,768
TOTAL	\$ 1,909,950	\$ 1,629,762	\$ 280,189
Waterworks			
W/S Oper.	\$ 1,810,026	\$ 1,714,230	\$ 95,796
Water Imp	\$ 961,821	\$ 193,941	\$ 767,880
Wtr Bnd Red	\$ 104,805	\$ 104,198	\$ 607
Wtr Bnd Res	\$ -	\$ -	\$ -
Sewer Debt	\$ 486,140	\$ 483,650	\$ 2,490
Sewer Imp	\$ 664,661	\$ 580,721	\$ 83,940
TOTAL	\$ 4,027,453	\$ 3,076,739	\$ 950,714
City Street	\$ 231,932	\$ 170,920	\$ 61,012
Traffic Impact	\$ 26,830	\$ 25,632	\$ 1,198

Capital Imp	\$ 658,079	\$ 372,021	\$ 286,058
LTGO Bond	\$ -	\$ -	\$ -
Landfill Assur	\$ 83,421	\$ 74,093	\$ 9,328
Cem PerpCare	\$ -	\$ -	\$ -
Trust Agency	\$ 312,145	\$ 89,653	\$ 222,492
TOTAL	\$ 7,249,810	\$ 5,438,820	\$ 1,810,991

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund and 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

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 5 years. Capital assets and inventory are recorded as capital expenditures when purchased.

f. Compensated Absences

Vacation leave is accrued at the following monthly rates for full-time employees, and is pro-rated for part-time employees:

Years of Service	Union and Non-Union Employees Monthly Vacation Accrual Rate
1 through 5	6.66 hours
6 through 10	10 hours**
11 through 19	13.33 hours
20 and thereafter	16.66 hours

** The City Manager may in his/her discretion deviate from the above schedule by allowing new employees with relevant prior work experience to begin individually accruing vacation time as if they had 6-10 years of continuous city employment.

Unused vacation accrual may be carried over to the following year, up to a maximum of eighty (80) hours. With the approval of the City Manager, an employee may carry over more than eighty (80) hours, up to a maximum of two hundred forty (240) hours. Over-limit unused vacation hours are paid to the employee with the first paycheck in December. Upon the effective date of termination of employment, any earned vacation leave time which has not been used is compensated to the employee.

Sick leave is accrued at a rate of eight (8) hours per month for full-time employees, and is pro-rated for part-time employees, accumulated indefinitely. Sick leave lapses on termination of employment and employees are not compensated for unused sick leave accrual upon separation.

The City Manager may award up to five (5) days per year of discretionary Management Leave to each exempt employee. Accrued management leave lapses on the anniversary date of the employee, and is not carried over from year to year. Management leave also lapses on termination of employment, and employees are not compensated for any accrued management leave upon separation.

Payments are recognized as expenditures when paid.

g. Long-Term Debt – See Note 5

h. Risk Management

The City of Carnation is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2017, 98 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits, an excess liability policy is

purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2017, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

i. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of Revenue Stabilization Fund (002), Contingency Fund (105), Cemetery Capital (306), Water Bond Reserve (405) Cemetery Endowment Fund (601) and Trust Fund (633).

NOTE 2 – DEPOSITS AND INVESTMENTS

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

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

The City of Carnation's investments are insured, registered or held by the City or its agent in the City's name. Investments are presented at original cost.

Investment by type as of December 31, 2017 are as follows:

Type of Investment	City's own Investment	Investment Held by City for Other Organizations	Total
Local Government Investment Pool	2,055,943.17		2,055,943.17
US Government Agency Securities	1,000,000.00		1,000,000.00
TOTAL	\$ 3,055,943.17		\$ 3,055,943.17

NOTE 3 – PROPERTY TAXES

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed daily during the month. Property tax revenues are recognized when cash is received by the City of Carnation. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied. The City of Carnation's regular levy for 2017 was \$1.02351 per \$1,000 on an assessed valuation of \$255,768,036 for a total regular levy of \$307,819.

NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liability (09) provides more details of the outstanding debt and liabilities of the city and summarizes the City's debt transactions for 2017. The debt service requirements, including both principle and interest, are as follows:

Year	2013 Water Bond		PWTF Loans		CCWF Loan		
	Interest	Principal	Interest	Principal	Interest	Principal	Total Debt
2018	\$ 69,777.24	\$ 34,420.36	\$14,558.97	\$ 231,477.92	\$ -	\$ 263,641.02	\$ 613,875.51
2019	\$ 68,701.60	\$ 35,496.00	\$13,276.26	\$ 231,477.92	\$ -	\$ 263,641.02	\$ 612,592.80
2020	\$ 67,592.35	\$ 36,605.25	\$11,993.56	\$ 231,477.93	\$ -	\$ 263,641.02	\$ 611,310.11
2021	\$ 66,448.44	\$ 37,749.16	\$10,961.48	\$ 231,477.91	\$ -	\$ 263,641.02	\$ 610,278.01
2022	\$ 65,268.78	\$ 38,928.82	\$ 9,428.15	\$ 231,477.92	\$ -	\$ 263,641.02	\$ 608,744.69
2023-2027	\$ 307,317.64	\$ 213,670.36	\$29,499.28	\$ 812,650.03	\$ -	\$ 1,318,205.10	\$2,681,342.41
2028-2032	\$ 271,778.79	\$ 249,209.21	\$ 5,345.30	\$ 510,218.97	\$ -	\$ 131,820.00	\$1,168,372.27
2033-2037	\$ 230,328.91	\$ 290,659.09	\$ -	\$ -	\$ -	\$ -	\$ 520,988.00
2038-2042	\$ 181,984.87	\$ 359,003.13	\$ -	\$ -	\$ -	\$ -	\$ 540,988.00
2043-2047	\$ 125,599.98	\$ 395,388.02	\$ -	\$ -	\$ -	\$ -	\$ 520,988.00
2048-2052	\$ 59,836.83	\$ 461,151.17	\$ -	\$ -	\$ -	\$ -	\$ 520,988.00
2053-2057	\$ 3,143.47	\$ 101,054.13	\$ -	\$ -	\$ -	\$ -	\$ 104,197.60
Total Debt	\$1,517,778.90	\$2,253,334.70	\$95,063.00	\$2,480,258.60	\$ -	\$ 2,768,230.20	\$9,114,665.40

NOTE 5 – PENSION PLANS

The City of Carnation participates in two retirement plans. The Primary plan (offered to all employees) is administered by the WA State Department of Retirement Systems (DRS) and the other is administered by the International City Manager’s Association (ICMA) and is only offered to the City Manager who has chosen to opt out of the City’s primary retirement plan options through DRS.

A. State Sponsored Pension Plans

Substantially all City of Carnation 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 PERS 1 UAAL, PERS 2 and PERS 3.

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, 2017 (the measurement date of the plans), the City of Carnation's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$26,694	0.004438%	\$210,587
PERS 2/3	\$34,864	0.005708%	\$198,236
TOTAL	\$61,558		\$408,912

B. Non State Sponsored Pension Plans

Only the City Manager, who has elected to not participate in the City's pension plan thru DRS, may participate in this option.

Employer and Participant contribution rates for the City of Carnation ICMA-RC City Manager Retirement Plan shall match the adopted contribution rates for the Washington State Department of Retirement Systems (DRS) PERS 2 Plan.

The Governmental Money Purchase Plan & Trust is a qualified plan – “a defined contribution plan” registered through the Internal Revenue Service (*IRS*) as a section 401 (a) and is administered by ICMA-RC, PO Box 96220, Washington, DC 20090-6220. Details and specific terms & conditions of this plan may be found on the ICMA-RC website www.icmarc.org or may be requested in writing at the above aforementioned address.

The City of Carnation contributed \$5,421.49 to this plan in 2017. This is not reported on the City of Carnation's Schedule 09.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	Postage Machine Lease	9/1/2019	6,407	-	2,136	4,271
263.51	5141 Copier Lease	1/1/2020	7,499	-	2,229	5,270
Total General Obligation Debt/Liabilities:			13,906	-	4,365	9,541
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	Public Works Trust - 2003	7/1/2023	373,110	-	53,301	319,809
263.82	Public Works Trust - 2005	7/1/2030	2,143,594	-	153,114	1,990,480
263.82	Public Works Trust - 2009	7/1/2029	325,815	-	25,063	300,752
263.82	DOE State Revolving Loan	7/16/2028	3,031,872	-	263,641	2,768,231
252.11	2013 Water Revenue Bonds	3/1/2053	2,266,249	-	33,377	2,232,872
259.12	Compensated Absences		26,684	45,398	44,024	28,058
264.30	Pension Liability		511,919	61,558	164,565	408,912
Total Revenue and Other (non G.O.) Debt/Liabilities:			8,679,243	106,956	737,085	8,049,114
Total Liabilities:			8,693,149	106,956	741,450	8,058,655

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