Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

City of Shelton

Mason County

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

Published August 24, 2015

Report No. 1014804

Washington State Auditor's Office

August 24, 2015

Mayor and City Commissioners
City of Shelton
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Shelton'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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

City of Shelton
Mason County
January 1, 2014 through December 31, 2014

The results of our audit of the City of Shelton are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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 each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
10.718	Water and Waste Program Cluster - ARRA Water and Waste Disposal Systems for Rural Communities
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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 Shelton
Mason County
January 1, 2014 through December 31, 2014

Mayor and City Commissioners
City of Shelton
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shelton, Mason County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 17, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 17, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Shelton
Mason County
January 1, 2014 through December 31, 2014

Mayor and City Commissioners
City of Shelton
Shelton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Shelton, Mason County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133. 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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 17, 2015

INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS

City of Shelton
Mason County
January 1, 2014 through December 31, 2014

Mayor and City Commissioners
City of Shelton
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shelton, Mason County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed on page 14.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shelton, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 15 through 31, budgetary comparison information on page 81 and information on postemployment benefits other than pensions and pension trust fund information on pages 82 through 84 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 August 17, 2015 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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 17, 2015

FINANCIAL SECTION

City of Shelton
Mason County
January 1, 2014 through December 31, 2014

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CITY OF SHELTON

Management's Discussion and Analysis
For the Year Ended December 31, 2014

The City of Shelton's Management Discussion and Analysis will provide an overview of the City's financial activities, for the year ending December 31, 2014. This narrative will give you an introduction into the financial picture of the City; the changes in the past year, and what challenges lie ahead. We will also address the 2014 budget results and some specific financial concerns of the City. While this discussion is informative, it does not paint the full financial picture, instead it should only serve as a guide to understanding the financial statements included in this report.

Financial Highlights

The City's assets exceeded its liabilities by $92,223,036 (net position) for fiscal year 2014. Of this amount, unrestricted net position of $6,903,764 may be used to meet the City's on-going obligations to its citizens and creditors and specific purposes or intended uses set by the City. This is an increase of $883,457 since 2013, or 14.7%. The City's total net position increased $9,365,756 from 2013, or 11.3%. This increase in net position denotes a more positive financial position for the City.

The City's investment in capital assets, net of accumulated depreciation, increased $8,186,621 in 2014. This 6.6% increase demonstrates the City's continued commitment towards capital replacement and improvements to existing infrastructure to provide needed services to its citizens.

The City's total debt decreased by $1,378,623 (2.7%) in 2014. Debt backed by the general revenues of the government like taxes are called general obligation debt and decreased $349,695. Debt backed by revenue streams from fees and charges are called revenue debt and decreased $1,028,928.

The City continues to maintain a strong financial position overall, in spite of the constant challenge of expenditures growing faster than revenues. In early 2015 the City created the Shelton Transportation Benefit District and will be asking the voters to approve a sales tax increase to support the transportation infrastructure. The City continues to prioritize resources and manage cost increases to protect its financial health while the nation slowly recovers from a depressed economy.

Using this Annual Report

This discussion and analysis of the City of Shelton's financial statements serves as an introduction to the basic financial statements, which begin with a Government-Wide format, and takes a look at the overall financial position of the City. Then the financial statements are broken down into three major categories; governmental, proprietary, and fiduciary type funds. Each broad category contains several funds within the category. Each category highlights "major funds". The City's most important funds, or major funds, are determined by the financial impact on the rest of the City. Major funds are reported separately, while non-major funds are reported in aggregate.

There are also notes to the financial statements and schedules, providing supplementary information, to aid the reader in fully understanding the financial results and condition of the City of Shelton.

Government–Wide Financial Analysis

The City's government-wide financial statements consist of a statement of net position (similar to a balance sheet) and a statement of activities (similar to an income statement). These statements are prepared using the economic resources measurement focus and accrual basis of accounting. The economic resources measurement focus has always been used by the private sector, and traditionally in government for proprietary and fiduciary funds. It is now used for government-wide financial statements too. The goal of this focus is to reflect all inflows, outflows and balances that affect an entity's net position. The accrual basis of accounting records all transactions when they occur, not when the cash is received or disbursed. The government-wide financial statements report the full assets, liabilities, revenues and expenses of the City of Shelton, and provide the reader with a broad overview of the City's finances in a manner similar to the private sector financial statements.

The first statement, the Statement of Net Position, presents the City's assets and liabilities with the difference shown as net position. Increases or decreases in net position indicate improvement or deterioration of the City's financial health.

SUMMARY OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current Assets	$3,954,958	$3,657,543	$4,972,711	$4,206,822	$8,927,669	$7,864,365
Capital Assets	31,074,674	25,509,623	100,796,853	98,175,283	131,871,527	123,684,906
Other Non-Current Assets	674,330	651,068	4,900,349	3,895,830	5,574,679	4,546,898
TOTAL ASSETS	$35,703,962	$29,818,234	$110,669,913	$106,277,935	$146,373,875	$136,096,169
LIABILITIES						
Short Term Liabilities	$928,884	$823,488	$2,558,384	$2,581,442	$3,487,268	$3,404,930
Long Term Liabilities	5,147,890	5,324,421	43,364,710	44,479,538	48,512,600	49,803,959
TOTAL LIABILITIES	$6,076,774	$6,147,909	$45,923,094	$47,060,980	$51,999,868	$53,208,889
NET POSITION						
Net Investment in Capital Assets	$26,121,241	$20,196,327	$57,511,716	$55,122,327	$83,632,957	$75,318,654
Restricted	721,798	669,716	964,517	848,603	1,686,315	1,518,319
Unrestricted	2,784,149	2,774,282	4,119,615	3,246,025	6,903,764	6,020,307
TOTAL NET POSITION	$29,627,188	$23,640,325	$62,595,848	$59,216,955	$92,223,036	$82,857,280

Government–Wide Financial Analysis – continued

Net position citywide increased $9,365,756, from $82,857,280 to $92,223,036, or 11.3%. Governmental activities net position increased $5,986,863, from $23,640,325 to $29,627,188, a 25.3 % increase. This is a significant increase and indicates a strengthening of financial position. This increase is due to the rehabilitation of street infrastructure contributed by the Sewer Fund as part of the Wastewater Treatment Plant Upgrade and the Basin 5 Sewer Collection System Rehabilitation project. Business-type activities net position increased $3,378,893, from $59,216,955 to $62,595,848, or 5.7%.

The majority of the City's assets are in capital assets, 90.1%, such as land, buildings, equipment and other construction improvements. 87.0% of governmental assets and 91.1% of business-type activity assets are capital assets. City of Shelton uses these assets to provide services to its citizens; consequently these assets are not available for future spending. The amount invested in capital assets, net of the related debt is $83,632,957, or 90.7% of net position. Resources to pay for the related debt must come from other sources, or assets, other than capital.

The City has a strong Current Ratio, comparing current assets to current liabilities. This ratio shows the City's ability to meet its short-term obligations. For governmental funds the ratio is 4.26 and for business-type activities the ratio is 1.94. The higher the number, the better the ability to pay future obligations. This ratio has decreased for the governmental activities and increased for the business-type activities since 2013, when they were 4.44 and 1.63 respectively, they still indicate a strong position.

The governmental activities have $721,798 in restricted net position (including nonspendable), which is 2.4% of total net position, and the business-type activities have $964,517 or 1.5% in restricted net position. The remaining balance of total unrestricted net position, $2,784,149 in the governmental activities, is comprised of committed, assigned and unassigned monies and may be used for the specific purpose or intended use of the City, and $4,119,615 in the business-type activities may be used to meet the City's on-going contracts and commitments.

Governmental activities unrestricted net position increased from $2,774,282, to $2,784,149, a difference of $9,867 or .4%.

Business-type activities unrestricted net position increased from $3,246,025 to $4,119,615 a difference of $873,590, or 26.9%. This is a significant increase and indicates a strengthening of financial position. This increase is credited to a seven year sewer rate study adopted by the Commission in 2013 generating more revenue while costs are being contained.

The second government-wide financial statement, the Statement of Activities, shows how the City's net position changed during the current fiscal year. All current year revenues and expenditures are included in this statement on the accrual basis of accounting, regardless of when cash is received or paid.

Government–Wide Financial Analysis – continued

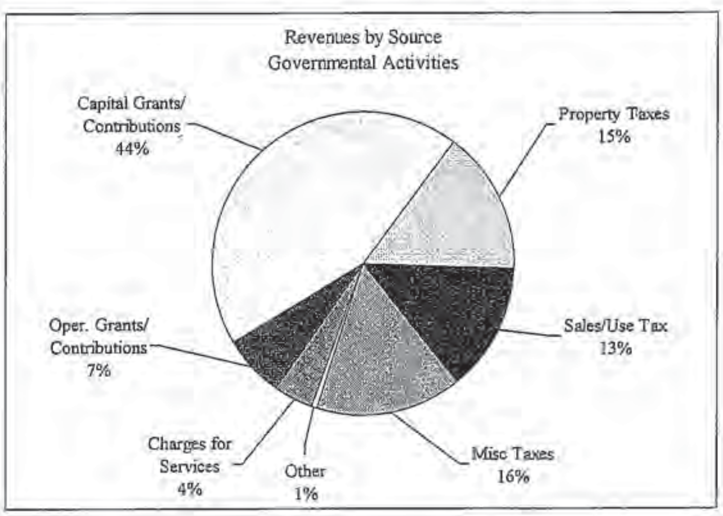
CHANGES IN NET POSITION

Revenues	Governmental Activities 2014	Governmental Activities 2013	Business-type Activities 2014	Business-type Activities 2013	Total 2014	Total 2013
Program Revenues						
Charges for Services	$651,737	$755,073	$8,215,048	$7,890,049	$8,866,785	$8,645,122
Operating Grants/Contributions	1,092,285	976,351	55,379	25,746	1,147,664	1,002,097
Capital Grants/Contributions	7,038,586	923,430	2,954,380	3,823,958	9,992,966	4,747,388
General Revenues						
Property Taxes	2,429,934	2,558,663	0	0	2,429,934	2,558,663
Retail Sales and Use Tax	2,178,384	2,152,861	0	0	2,178,384	2,152,861
Misc Taxes	2,555,905	2,388,506	0	0	2,555,905	2,388,506
Other	86,220	103,579	(89,966)	(726,952)	(3,746)	(623,373)
Total Revenues	$16,033,051	$9,858,463	$11,134,841	$11,012,801	$27,167,892	$20,871,264
Expenses by Program						
General Government	$2,150,180	$1,978,881	$0	$0	$2,150,180	$1,978,881
Public Safety	4,489,307	4,393,872	0	0	4,489,307	4,393,872
Transportation	1,651,622	1,372,899	0	0	1,651,622	1,372,899
Natural and Economic Environment	1,068,536	941,015	0	0	1,068,536	941,015
Mental and Physical Health	2,147	1,907	0	0	2,147	1,907
Culture and Recreation	513,892	570,785	0	0	513,892	570,785
Interest on Long-term Debt	170,504	216,439	0	0	170,504	216,439
Water	0	0	1,614,880	1,871,861	1,614,880	1,871,861
Sewer	0	0	4,166,047	4,012,520	4,166,047	4,012,520
Solid Waste	0	0	1,457,636	1,388,082	1,457,636	1,388,082
Storm Drainage	0	0	517,385	402,516	517,385	402,516
Total Expenses	$10,046,188	$9,475,798	$7,755,948	$7,674,979	$17,802,136	$17,150,777
Change in Net Position	$5,986,863	$382,665	$3,378,893	$3,337,822	$9,365,756	$3,720,487

Both of the Government-Wide Financial Statements distinguish between the governmental and business type activities.

- <u>Governmental Activities</u>

Tax revenues primarily support governmental activities. These governmental activities include: legislative, judicial, executive, financial services, risk management, legal, human resources, police, fire, detention, engineering, planning, community development, libraries, arts, recreation, parks, streets, tourism, and some monies held in trust.

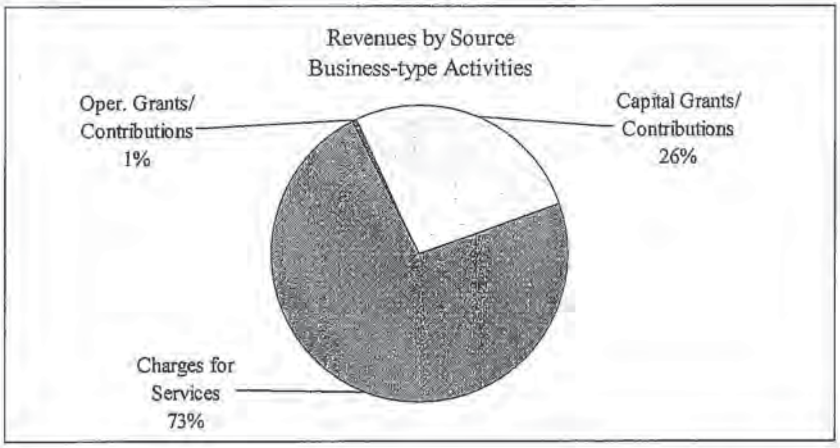


Government–Wide Financial Analysis – continued

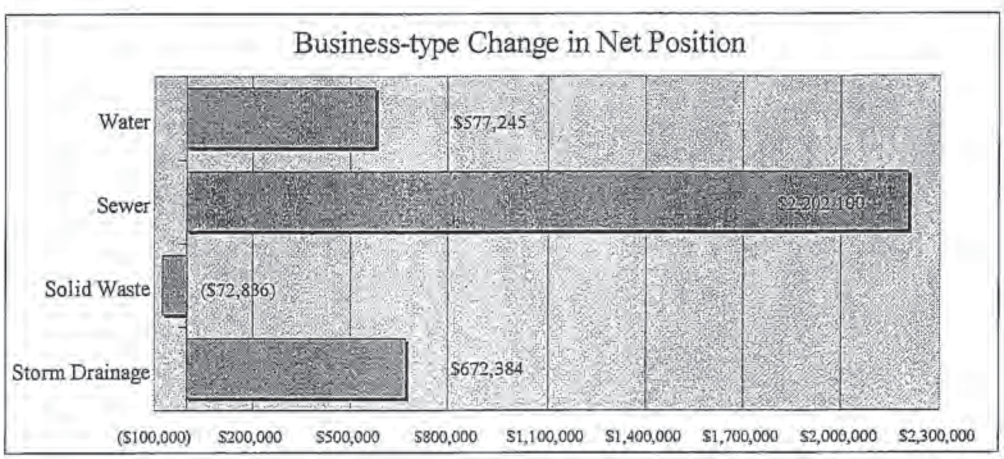
The City's Capital Grants and Contributions increased from 9% of revenue in 2013 to 44% in 2014. This 35% increase, $6,115,156, is due to the rehabilitation of street infrastructure in the basin 5 area contributed by the Sewer Fund as part of the Wastewater Treatment Plant upgrade and the Basin 5 Sewer Collection System Rehabilitation projects.

- <u>Business-Type Activities</u>

Business-type activities are intended to recover their costs through user fees and charges. Business type activities include; water service, sewer collection and treatment, solid waste collection and disposal, and storm drainage management.



In the business-type activities, Charges for Services increased from 67% to 73%, a 6% increase, and Capital Grants and Contributions decreased from 33% to 26%, a 7% decrease. The increase in Charges for Services is due to a rate increase implemented in the Sewer Fund in 2014 and the decrease in the Capital Grants and Contributions is due to the completion of the Dayton-Airport Road Water main extension, which was funded by the Washington State Patrol, in 2013. Gains and losses on capital asset disposition are not reflected in the graph above.



Government–Wide Financial Analysis – continued

All of the business-type activities, except the Solid Waste Fund, had positive changes in net position, ranging from $577,245 for the Water Fund to $2,202,100 for the Sewer Fund. The Solid Waste Fund had a decrease in net position of $72,836.

The Government-Wide Financial Statements can be found on pages 21 - 23 of this report.

Fund Financial Statements

City of Shelton uses fund accounting to comply with finance-related legal requirements. A fund is a grouping of related accounts, used to maintain control over resources that have been identified for specific activities or purposes. Fund accounting demonstrates accountability within those activities or purposes. There are three categories of fund types analyzed in this section of the report, governmental, proprietary, and fiduciary.

- **Governmental Funds**

The governmental fund statements provide a view of the results of operations for the basic services of the City. These statements show the balances of available resources for short-term future needs, and are helpful in identifying financing requirements.

There are two major governmental funds, the General Fund and the Capital Improvement Fund. The City also had three non major special revenue funds and one permanent fund during 2014. Included in the special revenue funds is the City's component unit, the Shelton Metropolitan Park District (SMPD). The SMPD is considered a component unit of the City, since the Shelton City Commission is the ex officio Park Board Commissioners and has operational responsibility for the SMPD. The governmental funds are represented in the government-wide statements as governmental activities.

The City of Shelton governmental fund balance at the end of 2014 was $3,568,050, an increase of $60,338 or 1.7% from the 2013 fund balance of $3,507,712.
Fund balance in the governmental funds is broken down into five categories, nonspendable, restricted, committed, assigned and unassigned which are based on the relative strength of the constraints that control how specific amounts can be spent.

The nonspendable fund balance is comprised of $100,000 of Library Endowment funds that are legally restricted so only earnings, and not principal, may be used for library purposes. The restricted fund balances include $267,215 of funds committed to pay obligations of the City, $132,077 of funds that must be used for capital projects, $106,192 of funds that must be used solely for the purpose of paying costs of tourism as required by state law, and $116,314 of funds levied by the Shelton Metropolitan Park District for park and recreation services. The committed fund balances include $602,985 of cash flow reserves and $788,518 of strategic reserves as set by City resolution. The cash flow reserve may be used to cover revenue fluctuations during the calendar year, but must be

Fund Financial Statements - continued

in place by year-end unless approved by the City Commission to be used for brief periods through year-end. The strategic reserve may only be used for conditions of financial exigency, for vital services whose cost was not anticipated when the budget was approved, and/or for public policy opportunities and must be replenished as soon as possible, and in no case longer than 3 years of their use. The City Commission must authorize use of these reserves. The assigned fund balances are intended to be used for specific purposes, $732,200 for projects, equipment and operations, and $368,943 for street repairs. The unassigned fund balance is the residual classification for amounts not contained in other classifications and consists of a balance of $353,606.

The City's governmental funds rely heavily on property tax and retail sales and use tax revenue. Total tax revenue provides 62% of the governmental fund revenues. Charges and fees for service only provided 20% of the governmental funds revenues.

The largest portion of the general governmental expenses, 36%, is spent providing for public safety.

	Expenses	
	Amount	Percentage
Governmental Activities:		
General Government Services	3,535,041	31%
Public Safety	4,056,332	36%
Transportation	734,619	7%
Natural and Economic Environment	1,068,304	9%
Mental and Physical Health	2,147	0%
Culture and Recreation	780,824	7%
Interest and Long-term Debt	531,300	5%
Capital Outlay	576,670	5%
Total Governmental Activities	$11,285,237	100%

The City of Shelton adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided on page 75 to show budget compliance. There are no restrictions that materially affect the availability of fund resources.

The General Fund is the main operating fund of the City of Shelton. At the end of 2014, the unrestricted (committed, assigned and unassigned) fund balance of the General Fund was $2,846,252, and total fund balance was $2,941,685. As a measure of the General Funds' liquidity, we compare both unrestricted fund balance and total fund balance to the total fund expenditures. Unrestricted fund balance represents 27.7% of the total general fund expenditures, a .2% increase from last year, and total fund balance represents 28.6% of the same amount, a .2% increase over last year. The General Fund is maintaining its financial condition through these challenging economic times as the City continues to prioritize resources, keeping levels of service as high as possible.

The second major governmental fund for the City of Shelton is the Capital Improvement Fund. This fund is used to account for major capital improvement projects, not accounted for in the proprietary funds, and are financed primarily by general obligation bonds, intergovernmental revenues, and donations. This fund also acts as the statutorily required fund in which Real Estate Excise Tax revenue is accounted for. This tax may be levied by cities planning under the Growth Management Act and the proceeds may only be used for capital projects. The City collects ½ of 1% of REET tax, which supports debt payments for the Fire Station/Public Safety Building project. The second ¼ of 1% REET which the City began collection in 2003, was levied by the City Commission to be used for street capital projects. This fund also accounts for the collection and expenditure of Traffic Impact Fees. The fund balance for the Capital Improvement Fund fluctuates each year depending upon the status of the projects. It is not an indicator of the financial condition of the fund.

The basic Governmental Funds financial statements can be found on pages 25 - 26.

- **Proprietary Funds**

The City had six proprietary funds during 2014, which included four enterprise or business-type funds, and two internal service funds.

The enterprise funds are represented in the government –wide statements as business-type activities. Enterprise funds operate like a private business, charging fees for the services they provide to the public. The enterprise funds are the Water, Sewer, Solid Waste and Storm Drainage Funds.

The internal service funds are represented in the government–wide statements as governmental activities since they primarily benefit governmental functions rather than business-type functions. Internal service funds accumulate and allocate costs internally to the City of Shelton. They also charge fees for services, but all of their customers are City departments. The City internal service funds are the Equipment Maintenance and Rental Fund, and the Payroll Benefits Fund. Resources within each fund can only be used to support the activities for the intended purpose of that fund.

Proprietary fund financial statements provide similar information to the government-wide statements except with more detail. Proprietary fund financial statements report the Water, Sewer, Solid Waste and Storm Drainage Funds separately, as they are all considered major funds. The internal service funds are summarized, as they do not qualify as major funds.

Revenues for the business-type activities totaled $8,268,255; a $352,460 or 8.2% increase over last year. Charges for services provided 98.8% of that revenue.

Business-type activities have $4,119,615 in unrestricted assets to be used for future needs. These business-type funds are making major investments in infrastructure and their strong balances will help them continue in the future.

Fund Financial Statements - continued

The Water and Sewer Funds had increases in net position for 2014, $577,245 and $2,202,100 respectively. These strong increases are related to capital contributions by the Port of Shelton, Mason Transit Authority, Mason County, and the United States of America Department of Agriculture for the Regional projects. A five year water rate structure was adopted by the Commission in June 2014 and a seven year sewer rate structure was adopted by the Commission in November 2013. The Water and Sewer Funds are both involved in the Regional Water and Sewer Facilities Plan.

The Solid Waste Fund had a decrease in net position in 2014 of $72,836. This decrease is due to operating expenses outpacing revenues. The Commission will be contemplating a rate increase in 2015.

The Storm Drainage Fund had an increase in net position in 2014 of $672,384. This large increase is related to storm lines and catch basins contributed by the Sewer Fund as a part of the WWTP Upgrade and Basin 5 Sewer Collection System Rehabilitation projects.

Current Ratios for Business-Type Activities (current assets / current liabilities)

	Water	Sewer	Solid Waste	Storm Drainage
2012	5.29	0.81	22.67	23.20
2013	9.60	0.64	14.52	43.70
2014	8.94	0.86	14.70	11.76

The current ratio indicates the strength of the fund's ability to pay for its current needs, the higher the ratio the easier it is to respond to short-term needs. The Water Fund had a small decrease in its ratio but still has a good ratio and is in strong financial position. The Sewer Fund has improved its ratio and financial condition since last year. Sewer rate increases were adopted in 2013 to help strengthen this fund's financial position. The Water and Sewer Funds continue to move forward with the remaining construction costs of the regional water and sewer facilities. The Solid Waste Fund has a high ratio which it will use to support operational expenses as the Commission contemplates a rate increase in 2015. The Storm Drainage Fund has a high ratio and is in strong position. It will be using its reserves for additional storm drainage improvements in 2014.

The basic proprietary fund financial statements can be found on pages 28-31.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-71 of this report.

General Fund Budgetary Highlights

Differences between the original budget and final budget for the City of Shelton amounted to $631,091. Adjustments were made within the General Fund Budget to accommodate the Homeless Shelter project, the Wellness program, sidewalk surveying, mapping and replacement, R/W Easements, additional jail costs, vehicle operations and maintenance costs, facility repairs, equipment needs, police operation needs and additional grant/donation revenues.

The City of Shelton's budget is prepared on a cash basis, when reported it is adjusted to conform with generally accepted accounting principles. Actual cash revenues for 2014 were more than projected cash revenues by $47,608 for the General Fund. Actual cash expenditures for 2014 were $1,076,640 less than budget. The General Fund ended with a $17,506 increase to the cash basis fund balance from 2013 to 2014, but with a fund balance $1,359,931 higher than had been originally projected in the budget.

Capital Assets

The City's investment in capital assets net of accumulated depreciation, as of December 31, 2014, in its governmental activities is $31,074,674, and in business-type activities is $100,796,853, which totals $131,871,527 for the whole City. This investment in capital assets includes land, easements and other rights, buildings, machinery and equipment, park facilities, streets and other infrastructure, less accumulated depreciation.

The increase of investment in governmental capital assets was $5,565,051 for 2014. This is a 21.8% increase. The increase of investment in capital assets for business-type activities was $2,621,570, or 2.7%. Total City increase in capital assets, net of depreciation, was 6.6%, or $8,186,621.

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	$1,791,100	$1,788,800	$2,379,868	$2,379,868	$4,170,968	$4,168,668
Easements & Other Rights	0	0	540,527	446,833	540,527	446,833
Buildings	9,148,178	9,398,012	3,503,103	3,514,112	12,651,281	12,912,124
Other Improvements	1,093,897	1,138,642	49,191,498	38,481,173	50,285,395	39,619,815
Infrastructure	16,466,870	10,470,287	0	0	16,466,870	10,470,287
Machinery/Equipment	1,593,126	1,786,508	15,557,710	16,439,640	17,150,836	18,226,148
Construction Progress	981,503	927,374	29,624,147	36,913,657	30,605,650	37,841,031
Totals	$31,074,674	$25,509,623	$100,796,853	$98,175,283	$131,871,527	$123,684,906

Capital Assets – continued

Major capital asset additions during the current fiscal year include:

Fund	Description
General	Police Incident Response Van Renovation
	GPS Unit
Capital Improvements	Turner Avenue Overlay Project
	Fairmount Avenue Paving
	Handicap Ramps
	SR3 Park and Ride
	SR3 Corridor Improvement
	Downtown Creek Sidewalk Improvements
	Lake Boulevard / Pioneer Way Street Project
Water	Angleside Reservoir Pump Station
	Hydrants and Services
	Second Street and Grandview Main
	Upper Mountain View Pressure Zone Improvements Design and Easement
	Water Lines and Hydrants Contributed by Developers
Sewer	Basin #5 Sewer Rehabilitation Construction
	Regional Phase IV Wastewater Treatment Plant Upgrade
	Basin #3 Sewer Rehabilitation Design
	Northcliff Main Extension
	Sewer Lines Contributed by Developers
Storm Drainage	Angleside Storm Drain System
	Canyon Creek Culverts and Overflow System
	Basin #5 Fairmount Storm Conveyance System
	Lake Boulevard Storm Drain Upgrades
	Storm Drainage Lines and Catch Basins Contributed by Developers

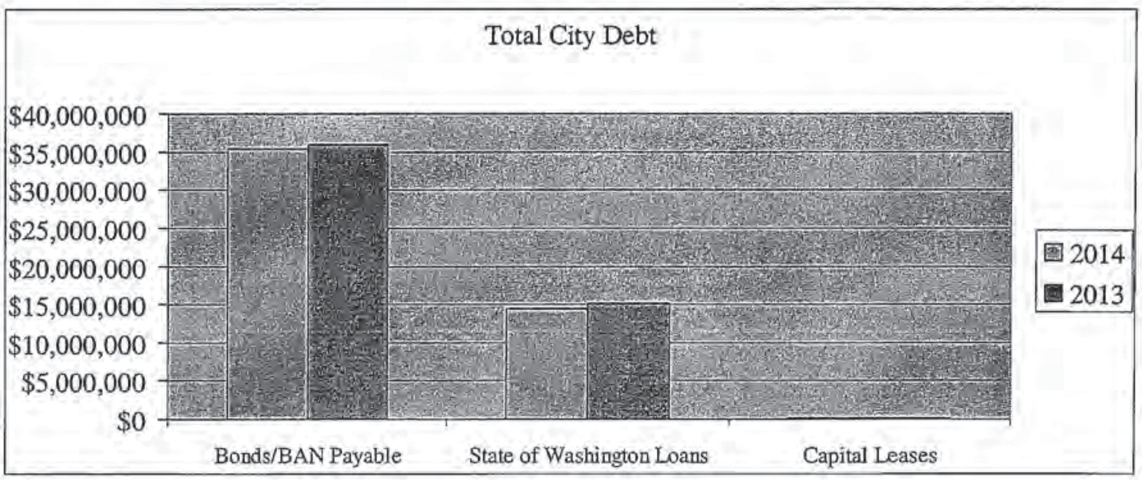
Additional information on the City of Shelton's capital assets can be found on pages 44-48.

Long-term Debt

On December 31, 2014, the City had total bonded debt outstanding of $35,346,715. Of that amount, $4,763,619 is general obligation debt of the City and is paid from taxes. General obligation debt is backed by the full faith and credit of the City of Shelton. The remaining bond debt of $30,583,096 is in revenue bonds which are guaranteed against the fees collected from customers for utility services. Debt guaranteed by revenue streams from fees and charges is not included when calculating the City's debt capacity.

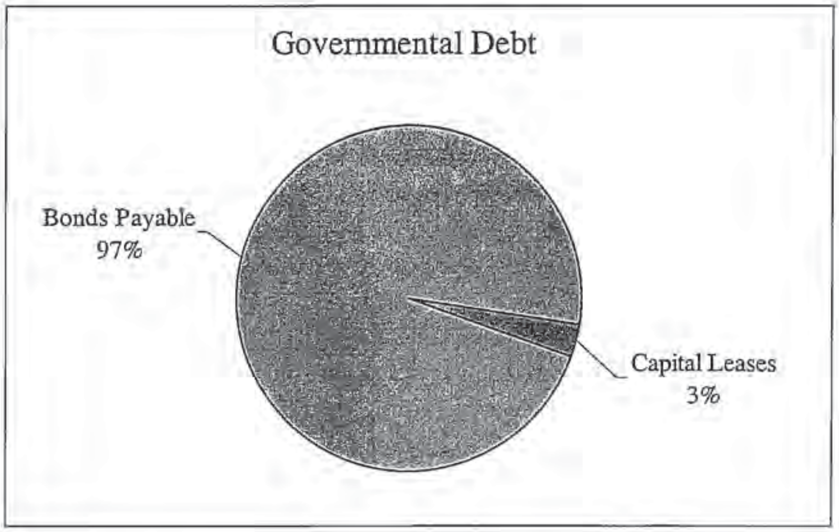
	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
Bonds/BAN Payable	$4,763,619	$5,099,050	$30,583,096	$30,898,409
State of Washington Loans	0	0	14,487,079	15,200,694
Capital Leases	156,744	171,008	0	0
Total	$4,920,363	$5,270,058	$45,070,175	$46,099,103

The City's total long-term debt decreased $1,378,623 (2.7%) during 2014.

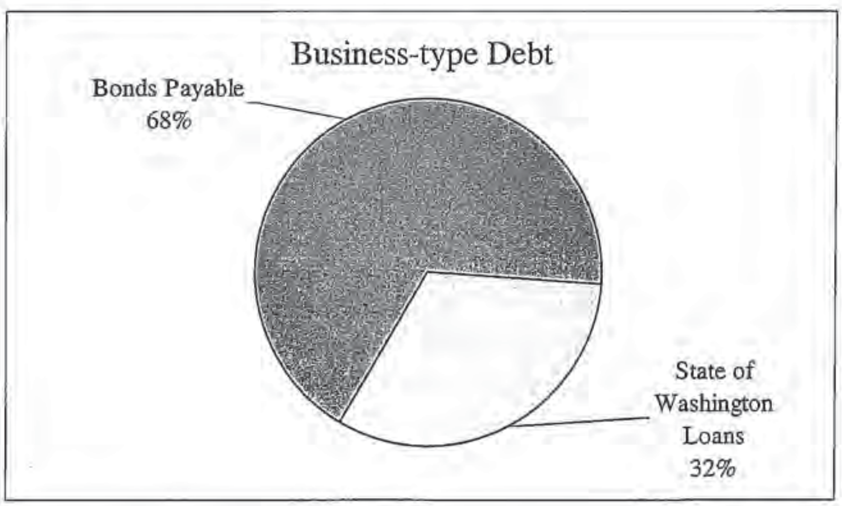


Most governmental debt is in the form of bonds. $1,090,000 of bonds were issued in 1998 and 1999 then refunded in 2013 for the purchase and remodel of the Civic Center. These bonds will not be retired until 2017 and 2019. The remaining $3,673,619 of outstanding governmental bonds, issued to the United States Department of Agriculture Rural Development in 2011, are for the renovation of the Fire Station/Public Safety Building. These bonds will not be retired until 2051.

Long-term Debt - continued



The majority of the City's business-type debt is in the form of bonds and State of Washington loans. Outstanding bonds include $23,980,096 issued to the United States Department of Agriculture Rural Development for the Regional Sewer Wastewater Treatment Plant upgrade and will retire in 2052. Additionally, a $3,358,000 Water/Sewer Revenue Bond was issued in 2014 to the United States Department of Agriculture Rural Development to replace the bond anticipation note used to support the Sewer Basin 5 Rehabilitation project. This bond will retire in 2054. The City currently has 12 state loans for sewer projects.



The City's debt is within both statutory and constitutional debt limits. For general obligation debt, without a vote, the City is limited by the constitutional debt limit of 1.5% of taxable property values, and has $2,479,685 in available capacity. For general

Long-term Debt – continued

obligation debt, with a 3/5 vote of its citizens, the City is limited by its statutory debt limit of 2.5% of taxable property values, and has $12,853,177 in available capacity. The City, with a 3/5 vote of its citizens could also incur $14,484,716 in debt for utility purposes, and $14,484,716 for open-space and parks facilities, under the statutory limits.

Additional information on the City of Shelton's long-term debt can be found in Note 9, pages 64-69, and on Schedule 9, pages 172-173, of this report.

Economic Factors

In the year 2014, the local economy showed signs of recovery with a decrease in local unemployment, increase in local sales taxes, some improvement in the local housing market and reduced fuel costs.

Unemployment Rates:

Mason County's average unemployment rate for 2014 was 8.5%, a decrease of 1.2% from 2013. This is higher than the state average of 6.3% and the national average of 6.2%.

Mason County Unemployment Rates

2010	2011	2012	2013	2014
11.6%	11.2%	10.4%	9.7%	8.5%

Housing Market:

The Mason County housing market showed some signs of improvement in 2014, while the Shelton housing market fared a little better, with the exception of permits. Mason County saw building permits for site-built homes increase 2.4% from 123 in 2013 to 126 in 2014, while there were no permits issued in Shelton. The average selling price of a home in the Shelton area increased 7.5% from $104,466 in 2013 to $112,271 in 2014. For Mason County as a whole, the average selling price of a home decreased 2.3% from $178,093 in 2013 to $174,001 in 2014. Both Mason County and Shelton reflected an increase in number of homes sold of over 21%.

	2011	2012	2013	2014
Home Sales in Shelton	147	139	165	200
Average Home Price	$124,073	$118,364	$104,466	$112,271
New Residential Building Permits	6	2	4	0

For 2015, the city is expecting an increase in residential development activity from prior years. Construction starts for residential development has been flat for several years; there is evidence that the inventory of vacated units for sale is diminishing and demand for single-family and multi-family housing is on the rise. In addition, the City anticipates

Economic Factors – continued

that later in 2015 construction will commence on the much-anticipated Shelton Hills development. This project is a 604-acre master-planned development that will include over 1 million square feet of mixed-use development (commercial, business park, and public facilities) and approximately 1,750 new residential units, all constructed over the next twenty years. The Final Environmental Impact Statement (FEIS) was released in January 2014, and the City Commission adopted a Project Planned-action Ordinance in March 2014. Several retailers have expressed interest in being located in the commercial center, and the City is assisting the developer to coordinate with the Washington State Department of Transportation (WSDOT) and others so the necessary infrastructure improvement can be approved and construction can commence in 2015. It is anticipated the initial phase will include 50-100 housing units, and potentially a hotel.

The Simpson waterfront mill has been sold to Sierra Pacific Industries, which plans to modernize the facility over the next two years. In addition, Olympic Panel Products recently sold to Swanson Group Manufacturing, which is relocating the business to Oregon. This will certainly have an effect on the city's finances and the housing market near-term; however, the significant local investment by Sierra Pacific Industries coupled with the promise of a long-term presence in Shelton is viewed as a positive. In addition, many employees of Olympic Panel Products and the Simpson Mill do not live in Mason County, further mitigating the impact of these closures on the local housing market.

Retail Sales:

Taxable Retail Sales for 2014 increased in the County by 13.1%, and increased inside the City of Shelton by 1.9%.

	2011	2012	2013	2014
City Taxable Retail Sales	205,904,324	219,154,438	206,290,384	210,185,764

The most significant costs are employee costs, which continue to rise. Currently, Seventy-three percent of the staff positions of the City are negotiated through union agreements. Wages are increased according to union contracts, which all four will be renegotiated in 2015. In 2014, these contracts included a 1% cost-of-living increase for non-public safety employees and a 3% cost-of-living increase for public safety union employees. Benefit costs continue to rise, with the greatest typically being medical insurance. In 2014, the medical insurance rate adjustment was 0% due to the provider transitioning from fully-insured to self-insured programs. In 2015, the overall benefit costs increased by 5%. Employee contributions vary; however, in the aggregate, non-public safety employees paid an average 15.4% of their insurance premiums in 2014 as a fixed amount of premium, while public safety union employees paid an average 7.9% of their insurance premiums as a fixed amount of premium. Due to a continued successful employee wellness program, resulting in a 2% premium discount, future medical insurance cost increases to the City will be less, although this is still a significant cost.

Economic Factors – continued

Energy costs continue to increase. The local Public Utility District raised electrical rates by 4% for kilowatt-hour consumption and $0.10 for daily systems in February 2014, and an increase of 3% for kilowatt-hour consumption and $0.10 for daily systems in February 2015.

Gas prices have decreased providing some relieve to the City's operating and capital budgets. In 2014, this reduction averaged 2.6% for Diesel and 4.2% for Unleaded and has continued to decrease an additional 30% into 2015. These decreases will support the City's ability to provide public safety services and continue with planned projects.

Regional Water and Sewer Plan

The City of Shelton has been working on a partnership, called the Regional Water and Sewer Plan, for many years, with the first intergovernmental agreement signed in 2002.

The plan is to provide water and sewer services for future growth to all partners in a regional manner. The City entered into many intergovernmental agreements since then, which continued to move the planning processes forward. During 2005, the Port of Shelton withdrew from the partnership with the City of Shelton, the Washington State Department of Corrections/Washington Correction Center, and the Washington State Patrol Training Academy.

Final planning documents were completed in 2005 to include the Regional Wastewater Facilities Plan, the Water System Pre-Design Report, and the Shelton Area Regional Water and Wastewater Environmental Report. The first phase, the Satellite Water Reclamation Plant Project, of the four-phased project began in early 2006, with final completion and acceptance on July 15, 2010. Phase three, the John's Prairie Utility Extension Project, was initiated by the local Public Utility District #3, by extending water to their new facility in the Johns Prairie area in 2010, with final completion and acceptance on June 18, 2012. The City continues to plan for sewer and reclaimed water pieces of this phase. Phase two, the Dayton-Airport Road Water System Expansion Project, completed design and construction of the water main extension (pipelines) in July 2013. The City has completed design efforts for its committed water system improvements for this phase with construction completion expected by late 2016. Phase four, the improvements to Shelton's existing Wastewater Treatment Plant, began design in March 2008, with construction starting in 2010 and completion scheduled in 2015.

Impact to Governmental Activities:

This Regional Plan has expanded the responsibilities of the general government of the City for administration of the project, associated grants, and all required record keeping and reporting. The City of Shelton is the lead agency for the regional project and will be the owner of the facilities once constructed. These additional responsibilities continue to have a significant impact on the administrative functions of the City.

Regional Water and Sewer Plan - continued

Impact to Business-type Activities:

This project will be financed through a mix of grants and loans with each entity paying its proportional share of the plan, for their agreed upon future capacity use of the system. Anticipated costs for the entire water and sewer project are about $71,700,000. City of Shelton's projected share after grant funding is projected at $37,300,000. This amount will be financed using various methods, through the Water and Sewer Funds, but will ultimately be born by the ratepayers.

The Regional Plan project costs were accounted for in the two business-type funds established in 2004, the Regional Water Fund and the Regional Sewer Fund, until December 31, 2010 at which time they were combined with the applicable City Water and Sewer utility funds, keeping these activities clearly identifiable.

For more information on the Regional Water and Sewer Plan see Note 6, pages 44-48.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided, or requests for additional information should be addressed to City of Shelton, 525 W. Cota, Shelton, WA 98584, Attn: Financial Services Director, or by e-mail at cbeierle@ci.shelton.wa.us.

CITY OF SHELTON, WASHINGTON
STATEMENT OF NET POSITION
December 31, 2014

	Government Activities	Business-type Activities	Total
ASSETS			
Cash and Equivalents	$ 2,988,910	$ 2,376,526	$ 5,365,436
Petty Cash	3,500	0	3,500
Investments	415,000	306,261	721,261
Unamortized Premiums (Discounts) on Investments	712	80,370	81,082
Receivables:			
Taxes	184,549	0	184,549
Accounts Receivable	144,067	1,328,845	1,472,912
Interest Receivable	743	1,961	2,704
Due from Other Governmental Units	211,301	503,680	714,981
Inventories	6,176	375,068	381,244
Restricted Assets:			
Cash - Program, Capital Projects & Debt Service	494,330	3,431,110	3,925,440
Investments - Projects and Programs	80,000	500,000	580,000
Investments - Nonspendable Fund	100,000	0	100,000
Investments - Bond and Loan Reserves	0	968,739	968,739
Deposits	0	500	500
Capital Assets, Net of Accumulated Depreciation:			
Land	1,791,100	2,379,868	4,170,968
Easements & Other Rights	0	540,527	540,527
Buildings	9,148,178	3,503,103	12,651,281
Improvements Other than Buildings	17,560,767	49,191,498	66,752,265
Machinery and Equipment	1,593,126	15,557,710	17,150,836
Construction in Progress	981,503	29,624,147	30,605,650
TOTAL ASSETS	35,703,962	110,669,913	146,373,875
DEFERRED OUTFLOWS of RESOURCES	0	0	0
LIABILITIES			
Accounts Payable	141,677	376,899	518,576
Interest Payable	34,137	350,006	384,143
Taxes Payable	0	6,879	6,879
Unamortized Bond Premium (Discount)	33,070	(677)	32,393
Noncurrent Liabilities:			
Due within one year	753,070	1,824,600	2,577,670
Due in more than one year	5,114,820	43,365,387	48,480,207
TOTAL LIABILITIES	6,076,774	45,923,094	51,999,868
DEFERRED INFLOWS of RESOURCES	0	2,150,971	2,150,971
NET POSITION			
Net Investment in Capital Assets	26,121,241	57,511,716	83,632,957
Restricted for:			
Projects and Programs	604,367	964,517	1,568,884
Debt Service	6,008	0	6,008
Library Purposes:			
Nonspendable	100,000	0	100,000
Expendable	11,423	0	11,423
Unrestricted	2,784,149	4,119,615	6,903,764
TOTAL NET POSITION	29,627,188	62,595,848	92,223,036

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	$ 2,150,180	$ 361,681	$ 32,847	$ 0
Public Safety	4,489,307	92,540	312,842	0
Transportation	1,651,622	3,340	206,189	7,038,586
Natural and Economic Environment	1,068,536	119,311	537,786	
Mental and Physical Health	2,147	0	0	
Culture and Recreation	513,892	74,865	2,621	
Interest on Long-term Debt	170,504	0	0	
Total Governmental Activities	10,046,188	651,737	1,092,285	7,038,586
Business-type Activities:				
Water Utility	1,614,880	1,730,852	0	460,587
Sewer Utility	4,166,047	4,398,112	0	2,057,823
Solid Waste Utility	1,457,636	1,330,259	55,379	0
Storm Drainage	517,385	755,825	0	435,970
Total Business-type Activities	7,755,948	8,215,048	55,379	2,954,380
Total Government Activities	$ 17,802,136	$ 8,866,785	$ 1,147,664	$ 9,992,966

General Revenues:
Property Taxes
Retail Sales and Use Taxes
Business Taxes
Excise Taxes
Tax Penalties and Interest
Grants & Contributions not restricted to specific programs
Investment earnings
Miscellaneous
Gain (Loss) on capital asset disposition
Transfers
Total General Revenues, Special Items and Transfers
Change in Net Position
Net Position - Beginning
Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (1,755,652)	$ 0	$ (1,755,652)
(4,083,925)	0	(4,083,925)
5,596,493	0	5,596,493
(411,439)	0	(411,439)
(2,147)	0	(2,147)
(436,406)	0	(436,406)
(170,504)	0	(170,504)
(1,263,580)	0	(1,263,580)
0	576,559	576,559
0	2,289,888	2,289,888
0	(71,998)	(71,998)
0	674,410	674,410
0	3,468,859	3,468,859
(1,263,580)	3,468,859	2,205,279
2,429,934	0	2,429,934
2,178,384	0	2,178,384
2,243,981	0	2,243,981
311,924	0	311,924
3,686	0	3,686
70,701	0	70,701
18,367	6,414	24,781
7,348	0	7,348
(13,882)	(96,980)	(110,862)
0	600	600
7,250,443	(89,966)	7,160,477
5,986,863	3,378,893	9,365,756
23,640,325	59,216,955	82,857,280
$ 29,627,188	$ 62,595,848	$ 92,223,036

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

CITY OF SHELTON, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS and DEFERRED OUTFLOWS of RESOURCES				
Cash and Equivalents	$ 2,752,262	$ 240,674	$ 158,223	$ 3,151,159
Petty Cash	3,500	0	0	3,500
Investments	0	0	180,000	180,000
Receivables:				
Taxes	160,758	3,555	20,236	184,549
Accounts Receivable	144,067	0	0	144,067
Interest Receivable	612	0	41	653
Due from other Governmental Units	35,236	176,065	0	211,301
Total Assets	3,096,435	420,294	358,500	3,875,229
Deferred Outflows of Resources	0	0	0	0
TOTAL ASSETS and DEFERRED OUTFLOWS of RESOURCES	3,096,435	420,294	358,500	3,875,229
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES				
Liabilities				
Account Payable	7,811	133,866	0	141,677
Total Liabilities	7,811	133,866	0	141,677
Deferred Inflows of Resources				
Property Taxes Levied	146,939	0	18,563	165,502
Total Deferred Inflows of Resources	146,939	0	18,563	165,502
Fund Balances				
Nonspendable:				
Endowment Principal	0	0	100,000	100,000
Restricted for:				
Projects and Programs	95,433	286,428	11,423	393,284
Debt Service	0	0	6,008	6,008
Tourism Promotion/Operation	0	0	106,192	106,192
Parks & Recreation Operation	0	0	116,314	116,314
Committed to:				
Cash Flow Reserve	602,985	0	0	602,985
Strategic Reserve	788,518	0	0	788,518
Assigned to:				
Projects, Equipment & Operations	732,200	0	0	732,200
Street Repairs	368,943	0	0	368,943
Unassigned:	353,606	0	0	353,606
Total Fund Balances	2,941,685	286,428	339,937	3,568,050
TOTAL LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES	$ 3,096,435	$ 420,294	$ 358,500	$ 3,875,229

Amounts reported for governmental activities in the statement of net assets are different because:	Balance in gov't funds	3,568,050
Capital assets used in governmental activities are not financial resources and, therefore,	Land & CIP	2,772,603
are not reported in the funds.	Depreciable Assets	27,578,027
Other long-term assets are not available to pay for current-period expenditures and,		
therefore, are deferred in the funds.	Deferred Inflows of Resources	165,502
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	Internal Service Funds	1,468,011
Long-term liabilities, including bonds payable, are not due and payable in the current period	Interest Payable	(34,137)
and therefore are not reported in the funds.	Long-term Liabilities	(5,890,868)
Net assets of governmental activities	$	29,627,188

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 6,349,565	$ 145,378	$ 565,039	$ 7,059,982
Licenses and Permits	190,817	0	0	190,817
Intergovernmental Revenue	1,277,935	419,650	0	1,697,585
Charges for Services	2,223,981	12,620	0	2,236,601
Fines and Penalties	111,985	0	0	111,985
Miscellaneous Revenue	125,364	0	891	126,255
TOTAL REVENUES	10,279,647	577,648	565,930	11,423,225
EXPENDITURES				
Current:				
General Government Services	3,535,041	0	0	3,535,041
Public Safety	4,056,332	0	0	4,056,332
Transportation	734,619	0	0	734,619
Natural and Economic Environment	1,068,304	0	0	1,068,304
Mental and Physical Health	2,147	0	0	2,147
Culture and Recreation	404,895	0	375,929	780,824
Debt Service:				
Principal Retirement	14,264	0	335,431	349,695
Interest and Other Debt Service Costs	7,362	0	174,243	181,605
Capital Outlay	24,148	552,522	0	576,670
TOTAL EXPENDITURES	9,847,112	552,522	885,603	11,285,237
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	432,535	25,126	(319,673)	137,988
OTHER FINANCING SOURCES (USES)				
Transfers In	0	94,045	280,924	374,969
Transfers Out	(430,925)	(30,000)	0	(460,925)
Sale of Capital Assets, Net of Costs	5,000	0	0	5,000
Compensation for Loss of Capital Assets	2,002	0	0	2,002
Insurance Recoveries-NonCapital	1,304	0	0	1,304
TOTAL OTHER FINANCING SOURCES AND USES	(422,619)	64,045	280,924	(77,650)
NET CHANGE IN FUND BALANCES	9,916	89,171	(38,749)	60,338
FUND BALANCES, BEGINNING	2,931,769	197,257	378,686	3,507,712
FUND BALANCE, ENDING	$ 2,941,685	$ 286,428	$ 339,937	$ 3,568,050

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

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

Net change in fund balances - total governmental funds		$ 60,338
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		(929,339)
Capital Outlays	576,670	
Depreciation Expense	(1,506,009)	
The net effect of various miscellaneous transactions involving capital assets (sales and donations) is to increase net position.		6,587,434
Capital Asset Donations	6,606,316	
Loss on disposal of Capital Assets	(18,882)	
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net position.		349,695
Some revenues or expenses reported in the statement of activities are not yet available or expensed and, therefore, are not reported as revenue or expenditures in governmental funds.		(806,070)
Revenue and Expenditures related to prior periods.		603,237
Internal service funds are used by management to charge the costs of fleet management and insurance to individual funds. The net revenue of internal service funds is reported with governmental funds.		121,568
Change in net position of governmental activities.		$ 5,986,863

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Solid Waste	Storm Drainage	Total	Internal Service Funds
ASSETS						
Current Assets:						
Cash and Equivalents	$ 1,700,458	$ 98,677	$ 216,090	$ 361,301	$ 2,376,526	$ 332,081
Investments	4,098	302,163	0	0	306,261	415,000
Unamortized Premiums (Discounts) on Investment	23,043	57,327	0	0	80,370	712
Accounts Receivable	275,705	737,753	203,514	111,873	1,328,845	0
Interest Receivable	554	1,407	0	0	1,961	90
Due from Other Governmental Units	0	454,450	16,256	32,974	503,680	0
Inventories	80,004	276,186	0	18,878	375,068	6,176
Total Current Assets	2,083,862	1,927,963	435,860	525,026	4,972,711	754,059
Noncurrent Assets:						
Restricted Assets:						
Cash - Capital Projects	315,622	3,115,488	0	0	3,431,110	0
Investments - Capital Projects	500,000	0	0	0	500,000	0
Investments - Bond and Loan Reserves	275,902	692,837	0	0	968,739	0
Deposits	0	500	0	0	500	0
Capital Assets, net of accumulated depreciation:						
Land	917,072	1,462,796	0	0	2,379,868	0
Easements & Other Rights	115,608	423,881	0	1,038	540,527	0
Buildings	168,429	3,334,674	0	0	3,503,103	0
Improvements Other than Buildings	12,209,692	32,157,184	0	4,824,622	49,191,498	131
Machinery and Equipment	530,241	14,423,314	593,917	10,238	15,557,710	723,913
Construction in Progress	1,975,499	27,211,584	0	437,064	29,624,147	0
Total Capital Assets	15,916,541	79,013,433	593,917	5,272,962	100,796,853	724,044
Total Noncurrent Assets	17,008,065	82,822,258	593,917	5,272,962	105,697,202	724,044
TOTAL ASSETS	19,091,927	84,750,221	1,029,777	5,797,988	110,669,913	1,478,103
DEFERRED OUTFLOWS of RESOURCES	0	0	0	0	0	0
LIABILITIES						
Current Liabilities:						
Accounts Payable	63,490	275,080	3,196	35,133	376,899	0
Interest Payable	9,816	340,190	0	0	350,006	0
Taxes Payable	0	0	6,879	0	6,879	0
Compensated Absences	34,917	28,729	19,571	9,518	92,735	8,208
Bonds Payable	125,000	483,600	0	0	608,600	0
Due to Other Governmental Units	0	1,123,265	0	0	1,123,265	0
Total Current Liabilities	233,223	2,250,864	29,646	44,651	2,558,384	8,208
Noncurrent Liabilities:						
Bonds/BAN Payable	2,930,000	27,044,496	0	0	29,974,496	0
Unamortized Bond Premium (Discount)	(7,332)	6,655	0	0	(677)	0
Compensated Absences	12,161	3,691	11,225	0	27,077	1,884
Due to Other Governmental Units	0	13,363,814	0	0	13,363,814	0
Total Noncurrent Liabilites	2,934,829	40,418,656	11,225	0	43,364,710	1,884
TOTAL LIABILITIES	3,168,052	42,669,520	40,871	44,651	45,923,094	10,092
DEFERRED INFLOWS of RESOURCES						
Grant Paid in Advance	0	2,150,971	0	0	2,150,971	0
NET POSITION						
Net Investment in Capital Assets	13,960,397	37,684,440	593,917	5,272,962	57,511,716	724,044
Restricted for Capital Projects	0	964,517	0	0	964,517	0
Unrestricted	1,963,478	1,280,773	394,989	480,375	4,119,615	743,967
TOTAL NET POSITION	15,923,875	39,929,730	988,906	5,753,337	62,595,848	1,468,011

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Solid Waste	Storm Drainage	Total	Internal Service Funds
OPERATING REVENUES						
Charges for Services	$ 1,690,056	$ 4,398,112	$ 1,322,052	$ 754,794	$ 8,165,014	$ 774,987
Interest Revenue	0	0	0	0	0	375
Other Operating Revenue	39,771	0	63,450	20	103,241	239
TOTAL OPERATING REVENUES	1,729,827	4,398,112	1,385,502	754,814	8,268,255	775,601
OPERATING EXPENSES						
Operations, Maintenance and Administration	1,140,694	1,637,681	1,341,204	387,487	4,507,066	615,956
Depreciation/Amortization/Depletion	406,486	1,599,259	96,602	118,619	2,220,966	123,646
Property, Excise and B&O Taxes	67,195	102,239	19,830	11,279	200,543	0
TOTAL OPERATING EXPENSES	1,614,375	3,339,179	1,457,636	517,385	6,928,575	739,602
OPERATING INCOME (LOSS)	115,452	1,058,933	(72,134)	237,429	1,339,680	35,999
NONOPERATING REVENUE (EXPENSES)						
Interest and Investment Revenue	2,646	3,632	136	0	6,414	213
Miscellaneous Revenue	1,025	0	136	1,011	2,172	0
Gains (Losses) on Capital Asset Disposition	(3,534)	(91,420)	0	(2,026)	(96,980)	0
Interest Expense and Related Charges	(505)	(826,868)	0	0	(827,373)	0
TOTAL NONOPERATING REVENUES(EXPENSES)	(368)	(914,656)	272	(1,015)	(915,767)	213
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	115,084	144,277	(71,862)	236,414	423,913	36,212
Capital Contributions	460,587	2,057,823	0	435,970	2,954,380	0
Transfers In	1,574	0	600	0	2,174	85,956
Transfers Out	0	0	(1,574)	0	(1,574)	(600)
CHANGE IN NET POSITION	577,245	2,202,100	(72,836)	672,384	3,378,893	121,568
TOTAL NET POSITION - BEGINNING	15,346,630	37,727,630	1,061,742	5,080,953	59,216,955	1,346,443
TOTAL NET POSITION - ENDING	$ 15,923,875	$ 39,929,730	$ 988,906	$ 5,753,337	$ 62,595,848	$ 1,468,011

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Solid Waste	Storm Drainage	Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash Received from Customers	$ 1,720,609	$ 4,325,372	$ 1,376,434	$ 750,972	$ 8,173,387	$ 861,182
Cash Payments to Suppliers for Goods and Services	(863,327)	(1,386,543)	(1,136,373)	(288,711)	(3,674,954)	(516,763)
Cash Payments to Employees for Services	(351,069)	(355,824)	(272,943)	(120,283)	(1,100,119)	(101,456)
NET CASH PROVIDED BY OPERATING ACTIVITIES	506,213	2,583,005	(32,882)	341,978	3,398,314	242,963
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfer In	0	0	600	0	600	0
Operating Grants	0	0	50,252	0	50,252	0
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	0	0	50,852	0	50,852	0
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:						
Proceeds from Capital Debt	0	3,964,413	0	0	3,964,413	0
Acquisition and Construction of Capital Assets	(1,544,178)	(2,184,694)	(1,574)	(408,007)	(4,138,453)	(30,602)
Principal Paid on Capital Debt	(125,000)	(4,868,341)	0	0	(4,993,341)	0
Interest Paid on Capital Debt and other Debt Costs	(255)	(800,430)	0	0	(800,685)	0
Proceeds from Sale of Equipment, etc.	1,574	0	0	0	1,574	0
Capital Contributed by State/Federal/Local	0	3,793,250	0	39,810	3,833,060	0
Capital Contributed by Customers	7,000	9,327	0	0	16,327	0
Compensation for Loss of Capital Assets	0	0	0	1,011	1,011	0
NET CASH USED FOR CAPITAL FINANCING ACTIVITIES	(1,660,859)	(86,475)	(1,574)	(367,186)	(2,116,094)	(30,602)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from the Sale of Investment Securities	2,677,626	584,469	100,000	0	3,362,095	248,809
Purchase of Investment Securities	(1,605,255)	(1,057,819)	0	0	(2,663,074)	(415,000)
Interest and Dividends on Investments	2,580	2,655	136	0	5,371	(214)
Interest Received on Extension and Service Contracts	0	782	0	0	782	0
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,074,951	(469,913)	100,136	0	705,174	(166,405)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(79,695)	2,026,617	116,532	(25,208)	2,038,246	45,956
CASH AND EQUIVALENTS, BEGINNING OF YEAR	2,095,775	1,187,548	99,558	386,509	3,769,390	286,125
CASH AND EQUIVALENTS, END OF YEAR	$ 2,016,080	$ 3,214,165	$ 216,090	$ 361,301	$ 5,807,636	$ 332,081

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Solid Waste	Storm Drainage	Totals	Internal Service Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Net Operating Income (Loss)	$ 115,452	$ 1,058,933	$ (72,134)	$ 237,429	$ 1,339,680	$ 35,999
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation	406,486	1,599,259	96,602	118,619	2,220,966	123,646
Operating Grant/InsRecovery Revenue	1,025	0	(55,243)	0	(54,218)	0
Decrease due to Operating Interest Revenue	0	0	0	0	0	(375)
Increase (Decrease) due to Operating Transfer	0	0	0	0	0	85,356
Changes in Assets and Liabilities:						
Decrease (Increase) in Accounts Receivable	(10,243)	(72,740)	(207)	(3,842)	(87,032)	0
Decrease (Increase) in Inventory	(2,295)	0	0	(6,682)	(8,977)	2,275
Increase (Decrease) in Accounts Payable	(4,212)	(2,447)	(1,900)	(3,546)	(12,105)	(3,938)
TOTAL ADJUSTMENTS	390,761	1,524,072	39,252	104,549	2,058,634	206,964
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 506,213	$ 2,583,005	$ (32,882)	$ 341,978	$ 3,398,314	$ 242,963

Noncash financing, capital and investing activities:

In the year 2014, capital assets of $386,243 were contributed by public developers and $70,909 were contributed by private developers to the Water Fund, $91,168 were contributed by private developers to the Sewer Fund, $1,038 were contributed by public developers, and $181,010 and $197,613 were contributed to the Storm Drain Fund from the City's Basin 5 Sewer Project and Wastewater Treatment Plant Upgrade Project respectively.

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2014

	Firemen's Pension	Agency Funds
ASSETS		
Cash and Equivalents	$ 77,861	$ 481,276
Investments	210,000	0
Unamortized Premiums (Discounts) on Investments	921	0
Receivables:		
Taxes - Property	11,576	0
Interest Receivable	155	0
TOTAL ASSETS	300,513	481,276
DEFERRED OUTFLOWS of RESOURCES	0	0
LIABILITIES		
Custodial Accounts Payable	0	481,276
TOTAL LIABILITIES	0	481,276
DEFERRED INFLOWS of RESOURCES		
Property Tax Levied	10,571	0
NET POSITION		
Held in trust for pension benefits and other purposes	$ 289,942	$ 0

The accompanying notes are an integral part of this statement.

CITY OF SHELTON, WASHINGTON
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For The Year Ended December 31, 2014

		Firemen's Pension
ADDITIONS		
Contributions		
Employer Contributions	$	140,516
State Contributions:		
Fire Insurance Premium Tax		6,205
Total Contributions		146,721
Investment Earnings:		
Interest		400
TOTAL ADDITIONS		147,121
DEDUCTIONS		
Pension Administration		8,521
Pension Benefits		34,132
Funeral Benefit		500
Medical Benefits		60,325
TOTAL DEDUCTIONS		103,478
CHANGE IN NET POSITION		43,643
NET POSITION - BEGINNING		246,299
NET POSITION - ENDING	$	289,942

The accompanying notes are an integral part of this statement.

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Shelton, under which these financial statements were prepared, conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Reporting Entity

The City of Shelton, Mason County, Washington was incorporated on May 19, 1890 and operates under the laws of the State of Washington applicable to a non-charter code city with a commission form of government. The city is a general purpose government and provides police, judicial, fire, parks and recreation, planning, building, street maintenance, water supply/distribution, sewage collection/treatment, sanitation, storm drainage collection, and general administrative services.

As required by generally accepted accounting principles, the financial statements present both the city, the primary government, and its component unit, the Shelton Metropolitan Park District (SMPD). The SMPD was formed by a special election certified on May 12, 2010 under the authority of RCW 35.61. Its sole purpose is to provide improved park and recreation services within the City of Shelton boundaries which are funded by a property tax imposed on the district. The three member Shelton City Commission, as the ex officio Park Board Commissioners, govern the SMPD. Although it is legally separated from the city, the SMPD is reported as if it were part of the primary government because it shares the same governing body and the primary government has operational responsibility for the SMPD.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The city reports the following two major governmental funds:

The General Fund is the city's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Improvement Fund is a capital projects fund that accounts for the collection and expenditure of Real Estate Excise Tax and Traffic Impact Fees. It also accounts for financial resources that are restricted, committed, or assigned to expenditure for the SR3 Corridor Improvement and Park & Ride projects and other capital street projects.

The other governmental funds of the city are used to account for grants and other resources whose use is restricted to a particular purpose. Included within the other governmental funds is the blended component unit of the city, the Shelton Metropolitan Park District.

Permanent funds are a governmental fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. The city has one such fund, the Library Endowment Fund, where all interest earnings are only used for library purposes.

The city reports the following four major proprietary funds:

The Water Fund accounts for the operations of providing the city's citizens and regional customers with water for drinking, industrial use and fire flow protection. It also accounts for the design and construction costs of the regional water project.

The Sewer Fund accounts for the operations of providing effective collection and treatment of wastewater for the city's citizens and regional customers. It also accounts for the design and construction costs of the regional sewer project.

The Solid Waste Fund accounts for all necessary operations to provide garbage collection and disposal services for the city's citizens.

The Storm Drainage Fund accounts for the operations of providing effective management and control of storm water runoff generated by storms and impervious surfaces in the city.

Internal service funds account for goods and services provided to other departments or funds of the city on a cost reimbursement basis. These include equipment rental, equipment repair and maintenance service, and payroll benefit administration. Internal service funds of a government are presented in the summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the city's governmental activities, financial statements for internal service funds are consolidated into the governmental column when presented at the government-wide level.

Additionally, the city reports the following two fiduciary funds:

The Firemen's Pension Fund accounts for the accumulation of resources for pension benefit payments to qualified firefighters.

The Treasurer's Trust Fund is an Agency Fund, which is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

As a general rule the effect of the interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments for external type transactions such as revenues and expenses for interest and water, sewer, solid waste, and storm water services.

Amounts reported as program revenues include (1) charges to customers, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, Solid Waste and Storm Drainage funds are service charges to customers. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgetary Information

Scope of Budget

The budget, as adopted, constitutes the legal authority for expenditures. The city's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. Annual appropriated budgets are prepared on a cash receipts and disbursement basis and are adopted for all funds except the agency funds. These appropriations lapse at year-end. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but this report includes budgetary comparisons for the General fund only, adjusted for GAAP presentation, in the Required Supplementary Information section. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures.

As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

Amending the Budget

In 2005, the City adopted a Budget Amendment and Modification Policy that complies with the RCW Chapter 35.

- This policy allows the city administrator to authorize budget changes within a fund that are consistent with the strategic objectives adopted in the Commission's budget, if the change is less than $10,000.
- Commission approval is required if the change is consistent with the strategic objectives adopted in the Commission's budget, but greater than $10,000. This approval is typically done through a motion at the commission meeting.
- Any changes for purposes not consistent with the strategic objectives approved prior, during the budget process, do need commission approval, regardless of the dollar amount. This approval is also typically done through a motion at the commission meeting.

The city commission must approve any executive revisions to the budget that alter the total expenditures of a fund. When the city commission determines that it is in the best interest of the city to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding one public hearing.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

Assets, Liabilities and Equities

Cash and Equivalents

On the balance sheet, cash and equivalents is comprised of the treasurer's checkbook balance and short-term residual investments of surplus cash. It is the city's policy to invest all temporary cash surpluses. At December 31, 2014 the treasurer's checkbook balance was $685,801, the restricted advance grant checkbook balance was $2,605,421, and the short-term residual investments totaled $6,558,791. These investments are open accounts with no maturity dates. The interest from these investments is credited to the General Fund. All other invested monies are classified as investments on the balance sheet (see Note #3).

The amounts reported as cash and cash equivalents also include compensating balances maintained with Key Bank in lieu of payments for services rendered. The average compensating balance maintained during 2014 was approximately $4,700,000.

Investments - See Note #3

Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note #4), and real estate excise taxes.

Accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

Interest receivable consists of amounts earned on investments and notes at the end of the year.

Amounts Due to and from Other Governments and Interfund Loans

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund loans receivable/payable". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government–wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note #5.

Amounts due to and from other governmental units include grants, entitlements, taxes and charges for services.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the individual inventory items are purchased.

Inventories in proprietary funds are valued by the weighted average method (which approximates the market value).

Restricted Assets and Liabilities

These accounts contain resources for capital projects, programs and debt service. Specific debt service reserve requirements are described in Note #9.

The restricted assets are composed of cash and investments.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. - See Note #6

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, personal leave, compensatory and holiday leave. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

Vacation pay for all employees except the Financial Services bargaining unit members hired before August 1, 2003, may be accumulated up to two years accrual, and is payable upon resignation, retirement or death.

Financial Services union employees hired before August 1, 2003 have personal leave time in lieu of separate vacation and sick leave. They may accumulate up to 750 hours that is payable upon resignation, retirement or death. Employees may also cash out excess time over 80 hours.

Sick leave policy varies by bargaining unit or work group, with a maximum of 120 days or shifts accumulated:

- Public Works union and Police Guild employees may redeem 1/4 of accumulated sick days over a minimum of 60 days to a maximum of 120 days, at a rate of $100 per day, at retirement.
- Customer service representative union employees may redeem any unused sick leave, in excess of 480 hours, to a maximum of 960 hours, at a rate of $100 per day at separation.
- Financial Services union employees hired after August 1, 2003 may redeem any unused sick leave, in excess of 480 hours to a maximum of 960 hours, at a rate of $100 per day at separation.

- Non-union employees may redeem 1/4 of accumulated sick days over a minimum of 60 days to a maximum of 120 days, at a rate of $100 per day, at retirement or termination of employment.

Long-Term Debt - See Note #9

Fund Balance

In the fund financial statements, governmental funds report nonspendable and restricted fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as needed.

The committed fund balances are reserves set by resolution for the General Fund. The cash flow reserves, set at 6.5% of expenditures, may be used to cover fluctuations in revenue needs throughout the budget cycle as long as they are in place at the end of the calendar year or for brief periods through year-end with city commission approval. The strategic reserves, set at 8.5% of expenditures, may only be used for conditions of financial exigency, for vital services whose cost was not anticipated when the budget was approved, and/or for public policy opportunities and must be replenished as soon as possible, and in no case longer than 3 years of their use. The city commission must authorize use of these reserves.

The assigned fund balances are amounts that are intended to be used for a specific purpose, as recommended by the city administrator and approved by the city commission through the budget process.

Committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 2
RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds' balance sheet includes a reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $5,890,868 difference are as follows:

	Due within one year	Due in more than one year	Unamortized Bond Premium (Discount)
Bonds Payable	$ 342,144	$ 4,421,475	$ 33,070
Capital Leases	14,626	142,118	0
Compensated Absences	388,092	11,181	0
Other Post Employment Benefits	0	538,162	0
Total	$ 744,862	$ 5,112,936	$ 33,070

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

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation states that "Some revenues or expenses reported in the statement of activities are not yet available or expensed and, therefore, are not reported as revenues or expenditures in governmental funds." The details of this ($806,070) difference are as follows:

Property Taxes	$	165,502
Accrued Debt Interest		(34,137)
Compensated Absences		(399,273)
Other Post Employment Benefits		(538,162)
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	$	(806,070)

Another element of that reconciliation states "Revenue and Expenditures related to prior periods." The details of this $603,237 difference are as follows:

Property Taxes	$	(185,762)
2013 Debt Interest		35,070
Amortized 2013 Bond Premium		10,168
Compensated Absences		395,265
Other Post Employment Benefits		348,496
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities	$	603,237

NOTE 3
DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the city's funds are obligations of the U.S. Government, state or local government securities, deposits with Washington State banks and savings and loan institutions or invested in the Washington State Treasurer's Investment Pool. Investments of pension and private-purpose trust funds are not subject to the preceding limitations.

At December 31, 2014 the carrying amount of the city's deposits was $2,100,000 and the carrying amount of the certificates of deposit was $1,025,000. The city's deposits of $2,100,000 are shown on the balance sheet and statement of net position as cash and equivalents and $1,025,000 of certificates of deposit are classified as investments on the financial statements. All of the city's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). The deposits held by WPDPC are considered to be insured.

The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 59. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 60 days. Per GASB 40 guidelines, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the city's pool investments is determined by the pool's share price. The city has no regulatory oversight responsibility for the LGIP, which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The city includes $4,458,791 of its deposits in the LGIP as cash and equivalents on the financial statements and the remaining $1,471,209 is held in the city's claims and payroll clearing funds.

The city's investments are either insured, registered or held by the city or its agent in the city's name.

The city does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2014, the city had the following investments and maturities:

Investment Type	Carrying Amount	Fair Value	Weighted Average Maturity (Years)
Federal Securities	1,555,000	1,636,248	2.02
Certificates of Deposit	1,025,000	1,025,000	.57
Local Government Investment Pool	5,930,000	5,930,000	.16
Total	8,510,000	8,591,248	

Pursuant to GASB 31, all investments held by the city are stated at fair value if material.

NOTE 4
PROPERTY TAXES

The Mason County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month with a mid month distribution in April, May, October and November.

PROPERTY TAX CALENDAR

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

Property taxes are recorded as a receivable when levied. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for December collections to be distributed by the county treasurer in January. The remaining amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The city may levy up to $3.3750 per $1,000 of assessed valuation for general governmental services. The city is also authorized to levy up to $.45 per $1,000 of assessed valuation for the firemen's pension fund. (See Note #7) This levy is subject to the same limitations as the levy for general government services.

Washington State Constitution and Washington State law, RCW 84.55.010, limits the rate.

For 2014, the City of Shelton levied the following property taxes on an assessed value of $579,388,622. (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

PURPOSE OF LEVY	Levy Rate per $1,000	Total Levy Amount
General Government	2.9620756	$1,716,193
Firemen's Pension Fund	0.2416340	140,000
Special-Emergency Medical Services	0.3479100	201,575
Special-Civic Center Bond - (on the assessed value of $569,671,085)	0.4015474	228,750

NOTE 5
INTERFUND BALANCES AND TRANSFERS

Interfund transactions are classified as follows:

* Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the city.

* Transfers to support the operations of other funds are recorded as "Transfers" and classified with "Other Financing Sources or Uses" in the governmental fund statements. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the Government-wide financial statements.

The following table displays Transfers during 2014:

Transfer To	Transfer From				
	General Fund	Capital Improv Fund	Solid Waste Fund	Internal Serv Fund EM&R	Total
Capital Improvement Fund-for project costs (non-routine)	$ 94,045	$ 0	$ 0	$ 0	$ 94,045
Other Governmental Funds– for debt payment (routine)	250,924	30,000	0	0	280,924
Water Fund - transfer of capital asset (non-routine)	0	0	1,574	0	1,574
Solid Waste Fund - transfer of capital asset (non-routine)	0	0	0	600	600
Internal Service Fund - for LEOFF1 medical costs (routine)	85,956	0	0	0	85,956
Total Transfers	$ 430,925	$ 30,000	$ 1,574	$ 600	$ 463,099

* Contributions to the capital of enterprise or internal service funds, transfers of fixed assets between proprietary and governmental funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified non-operating revenue after "Income (Loss) before contributions and Transfers" on the proprietary fund statements.

* Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds in the fund statements. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity. Loans and advances are subject to elimination upon consolidation.

The following table displays interfund loan activity during 2014:

Receivable Fund	Payable Fund	12/31/13	New Loans	Re-Payments	12/31/14	Purpose
General	Capital Improvement	$ 100,000	$ 0	$ 100,000	$ 0	Cash Flow
Total Interfund Loans		$ 100,000	$ 0	$ 100,000	$ 0	

NOTE 6
CAPITAL ASSETS

General Policies

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred. (Obligations under capital leases are disclosed in Note #9.)

All capital assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalization threshold has been established at $2,500.

The city has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the city has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable statements.

Depreciation

Depreciation expense is charged to allocate the cost of capital assets over their estimated useful lives. Depreciation on all assets is provided on the straight-line basis over the following useful lives:

Asset Type	Estimated Service Life
Buildings	20 - 60 years
Improvements Other Than Buildings	15 - 50 years
Machinery and Equipment	3 – 65 years
Infrastructure	7 - 50 years

Depreciation expense was charged to functions / programs of the city as follows:

Governmental Activities:	Amount
General Government	$ 186,796
Public Safety	176,022
Transportation	1,074,890
Natural and Economic Environment	672
Culture and Recreation	67,629
Capital Assets held by the government's internal service funds	123,646
Total Depreciation -Governmental Activities	$ 1,629,655

Business - Type Activities	Amount
Water	$ 406,486
Sewer	1,599,259
Solid Waste	96,602
Storm Drainage	118,619
Total Depreciation - Business Type Activities	$ 2,220,966

Governmental Capital Assets

Governmental long-lived assets of the city, purchased, leased or constructed are recorded as expenditures in the governmental funds and are capitalized, net of depreciation, in the government-wide statements.

Summary of Changes

Governmental Activities	Beginning Balance 01/01/14	Increases	Decreases	Ending Balance 12/31/14
Capital assets, not being depreciated:				
Land	1,788,800	2,300	0	1,791,100
Construction in progress	927,374	490,560	(436,431)	981,503
Total capital assets, not being depreciated	2,716,174	492,860	(436,431)	2,772,603
Capital assets, being depreciated:				
Buildings	11,715,768	0	0	11,715,768
Improvements other than buildings	1,508,511	0	0	1,508,511
Machinery and equipment	5,631,346	88,020	(72,985)	5,646,381
Infrastructure	17,704,187	7,069,139	(266,863)	24,506,463
Total capital assets being depreciated	36,559,812	7,157,159	(339,848)	43,377,123
Less accumulated depreciation for:				
Buildings	(2,317,756)	(249,834)	0	(2,567,590)
Improvements other than buildings	(369,869)	(44,745)	0	(414,614)
Machinery and equipment	(3,844,838)	(281,402)	72,985	(4,053,255)
Infrastructure	(7,233,900)	(1,053,674)	247,981	(8,039,593)

Total accumulated depreciation	(13,766,363)	(1,629,655)	320,966	(15,075,052)
Total capital assets, being depreciated, net	22,793,449	5,527,504	(18,882)	28,302,071
Governmental activities capital assets, net	25,509,623	6,020,364	(455,313)	31,074,674

In the year 2014, $10,795 of sidewalk infrastructure and $2,225 of easements were contributed to the city through private sources. Additionally, $16,753 of sidewalk infrastructure was contributed from the city's Basin #5 Sewer Rehabilitation Project, and $1,499,003 and 5,077,540 of street infrastructure was contributed through the city's Wastewater Treatment Plant Upgrade and Basin #5 Sewer Rehabilitation projects respectively.

Proprietary Fund Capital Assets

Capital assets of proprietary funds are capitalized in their respective statements of net position.

Summary of Changes

Business Type Activities	Beginning Balance 01/01/14	Increases	Decreases	Ending Balance 12/31/14
Capital assets, not being depreciated:				
Land	2,379,868	0	0	2,379,868
Easements & Other Rights	445,694	93,735	0	539,429
Construction in progress	36,913,657	3,779,312	(11,068,822)	29,624,147
Total capital assets, not being depreciated	39,739,219	3,873,047	(11,068,822)	32,543,444
Capital assets, being depreciated:				
Easements & Other Rights	1,220	0	0	1,220
Buildings	5,733,592	129,132	(1,023)	5,861,701
Improvements other than buildings	48,343,204	12,004,563	(202,753)	60,145,014
Machinery and equipment	20,737,300	4,999	(59,767)	20,682,532
Total capital assets being depreciated	74,815,316	12,138,694	(263,543)	86,690,467
Less accumulated depreciation for:				
Easements & Other Rights	(81)	(41)	0	(122)
Buildings	(2,219,480)	(140,141)	1,023	(2,358,598)
Improvements other than buildings	(9,862,031)	(1,197,258)	105,773	(10,953,516)
Machinery and equipment	(4,297,660)	(886,929)	59,767	(5,124,822)
Total accumulated depreciation	(16,379,252)	(2,224,369)	166,563	(18,437,058)
Total capital assets, being depreciated, net	58,436,064	9,914,325	(96,980)	68,253,409
Business-Type activities capital assets, net	98,175,283	13,787,372	(11,165,802)	100,796,853

Construction Commitments

The City of Shelton has active construction projects as of December 31, 2014, that include:

Governmental	SR3 Park & Ride Lot, SR3 Corridor Improvement, Downtown Creek Sidewalk Improvements, Lake Boulevard / Pioneer Way Street Project, Evergreen Safe Routes and the Callanan Parking Lot Improvements.
Water Fund	Angleside Reservoir Pump Station and the Upper Mountain View Pressure Zone Improvements.
Sewer Fund	Basin #3 Sewer Line Improvements, Shelton Wastewater Treatment Plant Upgrade, and the Shelton Wastewater Treatment Intertie project.
Storm Fund	Lake Boulevard Storm Upgrades, Angelside Storm Improvements, Storm Drain Improvements located at SR3, SR3 Park & Ride Storm Improvement, and the Canyon Creek Culvert Project.

At year-end the government's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Angleside Reservoir Pump Station	136,508	3,383
Upper Mountain View Pressure Zone	1,044,542	503,928
Shelton WWTP Upgrade	10,105,356	2,210,706
SR3 Corridor Impr & SR3 Park &Ride Lot Project	104,349	42,660
Lake Boulevard Reconstruction Project	302,831	188,381
Total	11,693,586	2,949,058

Interest Capitalization

The total interest expense incurred by the City of Shelton in 2014 for the enterprise funds was $942,992 of which $120,032 was capitalized and the remainder was charged to expense.

Regional Water and Sewer Plan

The City of Shelton has entered into a succession of inter-governmental agreements related to the Regional Water and Sewer Plan. The City of Shelton is the lead agency on this project, and will become the owner responsible for operation and maintenance of the regional water and sewer systems once constructed.

In 2004, the City created two new funds, the "Regional Water Fund" and the "Regional Sewer Fund". These funds accounted for all regional plan project costs until December 31, 2010 at which time these funds were combined with the associated City Water and Sewer utility funds, keeping them clearly identifiable.

There are four distinct phases to the planned regional system, they include;

Phase I: Satellite Water Reclamation Plant Project – completed in 2010
Phase II: Dayton-Airport Road Water System Expansion Project – Water Extension completed in 2013
Phase III: John's Prairie Utility Extension Project – Water Extension completed in 2012
Phase IV: Shelton Wastewater Treatment Plant Improvement Project

The number on the phases does not indicate the order of priority or completion. Each phase has been or will be designed and constructed as financing packages are completed for that portion of the work.

Phase 1, the Satellite Water Reclamation Plant Project, was completed and accepted by the City on July 15, 2010. The total cost of Phase I was $20,803,317 for design and construction. The City utilized a State and Tribal Assistance Grant (STAG) from the Environmental Protection Agency in the amount of $1,359,200 to support construction. The City issued $465,000 in revenue bonds for design and received a Public Works Trust Fund Loan of $2,079,360 for construction. Mason County awarded the City monies, from the Community Economic Revitalization Board's .08 tax funding, for assistance in paying back these loans. The Washington State Patrol and Department of Corrections provided approximately 75% of the funding for this project, which came from the State's Capital Budget appropriations. Currently, the Washington State Patrol and the Department of Corrections are the City's only customers of this plant and are assessed monthly fees based upon the level of services provided.

Phase II, the Dayton-Airport Road Water Expansion Project, is being funded 100% by the Washington State Patrol and Department of Corrections for the water main extension (pipelines). A base mapping document was completed in 2005 to be used for this phase. The City, acting on behalf of these agencies, started design in August of 2010 with funding from their 2009-2011 state biennial appropriations for this project. The agencies secured funding for the construction phase costs of this project in a supplement to their 2011-2013 biennial budgets for construction in the spring of 2013. The water main extension was completed and accepted by the City on July 8, 2013 for a total cost of $2,658,647. The City also provided services to WSP for improvements/restoration of on-site features at the WSP Academy totaling $276,815. The City has completed design efforts for its committed water system improvements per the Regional Plan. These include multiple tanks and well upgrades required to implement a new pressure zone to service the newly constructed water main. The cost of the regional piece of these improvements is estimated at $4.5 million and is expected to be completed by late 2016. The City will utilize part of a $9,009,900 Drinking Water State Revolving Fund loan funded by the U.S. Environmental Protection Agency for these improvements, which includes a loan forgiveness of $2,095,030.

Phase III, the Johns Prairie Utilities Extension Project was initiated by the local Public Utility District #3 (PUD#3) by extending water to their new facility in the Johns Prairie area. They expended $3,382,497 for design and construction of this portion of the project water line and contributed this water line extension to the City on June 18, 2012. The City continues to plan for the sewer and reclaimed water piece of this phase. These projects are intended to be financed through a mix of grants and loans, and the formation of new partnerships with each entity paying a balance of the proportional share of the plan, per an agreed upon future capacity of the water and sewer systems that they will need.

Phase IV, the improvements to Shelton's existing Wastewater Treatment Plant began design in March 2008. The City utilized $1,390,850 Washington State Revolving Fund loan, administered by the Department of Ecology, and a $1 million Public Works Trust Fund loan for design. For construction, the project was awarded a grant and loan combination of $8.722 million from the United States Department of Agriculture's Rural Development (USDA-RD) Program in 2006, followed by a subsequent grant and loan combination of up to $25.114 million in 2009 and 2010. The Washington State Patrol and Department of Corrections are providing approximately 3.3% of the funding for this phase. Total cost for this project is estimated to be $38.6 million with construction scheduled to be completed in 2015.

The plan is for all of the regional water and sewer facilities to be operational by 2016 except for the Johns Prairie Sewer and Reclaimed Water piece of Phase III which will be addressed at a later date. Total projected costs for all phases of the Regional Plan water and sewer projects are $71.7 million.

NOTE 7
PENSION PLANS

Substantially all city full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of

Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Non-vested	101,191
Total	368,272

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
*** Minimum rate.

Both city and the employees made the required contributions. The city required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$ 42,433	$ 263,041	39,134
2013	$ 37,484	$ 237,939	37,189
2012	$ 34,359	$205,484	28,828

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are *actuarially reduced* for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits		10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits		699
Active Plan Members Vested		16,830
Terminated Plan Members Nonvested		1,600
	Total	29,640

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed $55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

* The employer rates include the employer administrative expense fee currently set at 0.18%
** The employer rate for ports and universities is 8.59%.

Both city and the employees made the required contributions. The city required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2014	$ 0	$ 71,961
2013	$ 0	$ 71,723
2012	$ 0	$ 68,678

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	4,513
Terminated Plan Members Nonvested	1,383
Total	6,058

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

* The employer rate includes an employer administrative expense fee of 0.18%.

Both city and the employees made the required contributions. The city required contributions for the years ended December 31 were as follows:

	PSERS Plan 2
2014	$ 0
2013	$ 0
2012	$ 0

Other Local Government Pension Systems – Firemen's Pension Retirement System

The city is also the administrator of a Firemen's Pension Retirement System. The system is closed, in that membership is limited to firefighters employed prior to March 1, 1970. The system is a single employer defined benefit pension plan and is shown as a trust fund in the financial reports. The system provides benefits to fire fighters retired prior to March 1, 1970 and partial benefits for certain fire fighters retired after March 1, 1970. The partial benefit is a result of coordination of benefits between the system and the State LEOFF System (see above). If the amount of benefits provided by the Firemen's Pension Retirement System exceeds the benefits provided by the LEOFF System, the city pays the difference between the two systems. All individuals covered by this system receive the partial benefit described above. When the LEOFF System was established, the employee obligation to contribute to the system ceased. The city then became liable for all funding of the system. The city has available for funding the system the use of a special property tax levy, and a portion of the State of Washington fire insurance premium tax and other resources the city may determine appropriate for funding the system.

Benefit obligations are defined in RCW 41.18. Basic service retirement benefits are as follows:

- Eligibility - After service for a period of 25 years or more and attainment of age 50. There is no compulsory retirement age under RCW 41.18.
- Benefit - 50% of basic salary plus an additional 2% of basic salary for each year of service in excess of 25 to a maximum of 5 additional years. This benefit is subject to a $300 per month minimum.
- Benefit increase - For service retirement after July 1, 1969, retirement benefits are linked with the rank at retirement and increased accordingly. For service retirement before July 1, 1969, retirement benefits are linked with the Consumer Price Index (Seattle), and increased correspondingly, with a minimum increase of 2% annually.

As of December 31, 2014, there were a total of 4 individuals covered by this system, 2 retirees and 2 beneficiaries, and receiving benefits. The city administers this plan, paying benefits to the retirees and beneficiaries in compliance with RCW 41.18.

Net Pension Liability

	December 31, 2013	December 31, 2014
Total pension liability	565,000	564,196
Fiduciary net position	246,299	289,942
Net pension liability	318,701	274,254
Fiduciary net position as a % of total pension liability	43.59%	51.39%
Covered payroll	0	0
Net pension liability as a % of covered payroll	N/A	N/A

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 67.

Discount Rate:		
Discount rate	3.75%	3.50%
Long-term expected rate of return, net of investment expense	3.75%	3.50%
Municipal bond rate	N/A	3.50%

Other Key Actuarial Assumptions:		
Valuation Date	January 1, 2014	January 1, 2014
Measurement Date	December 31, 2013	December 31, 2014
Inflation	2.50%	2.50%
Salary increases including inflation	3.50%	3.50%
Actuarial cost method	Entry Age Normal	Entry Age Normal

Mortality rates were based on the RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members).

The long-term expected rate of return is determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The following capital market assumptions are per Milliman's investment consulting practice as of December 31, 2014:

Asset Class	Index	Long-Term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	0.54%
Short-Term Bonds	Citigroup 1-3 Year Gov/Cred	1.52%
Long-Term Bonds	Barclays Long Gov/Cred	2.99%
Assumed Inflation – Mean		2.25%
Long-Term Expected Rate of Return		3.50%

The discount rate of 3.50% as of December 31, 2014 is believed to be an appropriate long-term expected rate of return for those investments in the plan and will be recalculated as of later valuation dates. The Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years is 3.56% as of December 31, 2014, which when rounded to the nearest ¼% resulted in a discount rate of 3.50%. Using 3.50% for both the long-term expected rate of return and the bond index allows for the use of a single discount rate.

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of December 31, 2013	565,000	246,299	318,701
Changes for the year:			
Service cost	0		0
Interest on total pension liability	19,682		19,682
Effect of plan changes	0		0
Effect of economic/demographic gains or losses	0		0
Effect of assumptions changes or inputs	13,646		13,646
Benefit payments	(34,132)	(34,132)	0
Medical payments from fund		(60,325)	60,325
Employer contributions		140,516	(140,516)
Contributions from state fire insurance premium tax		6,205	(6,205)
Net investment income		400	(400)
Administrative expenses		(9,021)	9,021
Balances as of December 31, 2014	564,196	289,942	274,254

Sensitivity Analysis

The following presents the net pension liability of the city, calculated using the discount rate of 3.50%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate.

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total pension liability	621,359	564,196	515,252
Fiduciary net position	289,942	289,942	289,942
Net pension liability	331,417	274,254	225,310

Milliman performed the most recent actuarial study of the pension system to determine the funding requirements as of January 1, 2014. For GASB purposes, the actuarial required contribution has been calculated using an alternate funding method, the Entry Age Normal Cost Method. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The actuarial method used for valuing assets is the market value basis.

Funding of the system is the complete responsibility of the city and requires no contributions from employees since March 1, 1970.

The city is allowed by state law to assess 22.5 cents per $1,000 of assessed valuation to fund the pension system. The city began collecting property tax revenue to fund the pension system at this rate on January 1, 1992. Any levy in excess of the requirement for funding the pension system is allowed for use by the General Fund.

All plan funds are managed by the city along with other city funds, please see Cash and Equivalents in Note 1, Summary of Significant Accounting Policies. Investment procedures and policies can be found in Note 3, Deposits and Investments.

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.15%. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

The Schedule of Employer Contributions compares the employer contributions actually made against contributions required.

Schedule of Employer Contributions

Fiscal Year Ending	Actuarially Determined Contribution	Actual Employer Contribution*	Contributions Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
December 31, 2014	26,885	86,396	(59,511)	0	N/A

** Employer Contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150. It includes revenues from fire insurance premium taxes.*

As of January 1, 2014, the actuarial present value of the future benefits to be provided is $565,000 and the unfunded actuarial accrued liability (UAAL) is $319,000. The UAAL is the actuarial liability minus the actuarial value of the fund assets, and is amortized as a level dollar amount over a closed 30-year period beginning January 1, 2000. The UAAL will be funded by future fire insurance premium tax, investment interest and employer contributions of property tax. The city has scheduled the next actuarial evaluation of the pension system to determine the funding requirements as of January 1, 2016.

Annual Pension Cost and Net Pension Obligation

	Fiscal Year Ending December 31, 2012	December 31, 2013	December 31, 2014
Annual Required Contribution:			
Annual Normal Cost	$ 0	$ 0	$ 0
Amortization of Liability less Assets	27,077	27,077	25,913
Interest at Year-end*	1,083	1,083	972
Annual Required Contribution at Year-end	$ 28,160	$ 28,160	$ 26,885
Interest on Net Pension Obligation	$ (8,053)	$ (7,545)	$ (7,134)
Adjustment to Annual Required Contribution	(15,291)	(14,908)	(15,449)
Annual Pension Cost	$ 35,398	$ 35,523	$ 35,200
Employer Contributions **	22,698	37,155	77,375
Increase (decrease) in net pension obligation	$ 12,700	$ (1,632)	$ (42,175)
Net pension obligation, beginning of year	$ (201,321)	$ (188,621)	$ (190,253)
Net pension obligation, end of year	$ (188,621)	$ (190,253)	$ (232,428)

** The assumed interest rate is 4.0% in 2012, 4.0% in 2013, 3.75% in 2014.*
*** Employer Contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150 and administrative expenses.*

Schedule of Funding Progress
Rounded to Thousands

Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Jan 1, 2014	246	565	319	44%	0	N/A

Annual Development of Pension Cost

Fiscal Year Ending	ARC at EOY	Interest On NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Employer Contributions	Change In NPO	NPO Balance
12/31/09	2,479	(12,379)	(18,391)	8,491	12,122	(3,631)	(251,210)
12/31/10	21,662	(10,048)	(17,774)	29,388	(4,802)	34,190	(217,020)
12/31/11	21,662	(8,681)	(15,888)	28,869	13,170	15,699	(201,321)
12/31/12	28,160	(8,053)	(15,291)	35,398	22,698	12,700	(188,621)
12/31/13	28,160	(7,545)	(14,908)	35,523	37,155	(1,632)	(190,253)
12/31/14	26,885	(7,134)	(15,449)	35,200	77,375	(42,175)	(232,428)

As of December 31, 2014, the city has a negative NPO as a result of the city paying more than its APC on a cumulative basis.

Three-year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2012	35,398	64	(188,621)
December 31, 2013	35,523	105	(190,253)
December 31, 2014	35,200	220	(232,428)

NOTE 8
OTHER POSTEMPLOYMENT BENEFITS

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 Retirees

Plan Description

The city provides lifetime medical care for members of the Washington Law Enforcement Officers and Fire Fighters (LEOFF) Retirement System hired on or before September 30, 1977, as required by the Revised Code of Washington (RCW) Chapter 41.26. This is a single employer defined benefit healthcare plan administered by the city. Members are provided necessary healthcare expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source. Most medical coverage for eligible retirees is provided by one of the city's employee medical insurance programs. Upon approval of the Mason County LEOFF Disability Board, direct payment is made for other retiree healthcare expenses not covered by the standard medical insurance program benefit provisions. The city also reimburses each eligible retiree for the cost of their monthly Medicare supplement premium. As of December 31, 2014 the city has 11 retirees in this group.

Funding Policy

Funding for eligible LEOFF retiree healthcare costs is provided entirely by the city as required by RCW. The city's funding policy is based on a "pay-as-you-go" basis. The cost of retiree health care benefits is recognized as an expenditure in the Payroll Benefits Trust Fund for eligible LEOFF police officers, and in the Firemen's Pension Fund for eligible LEOFF firefighters as the claims are paid.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities, consistent with the long-term perspective of the calculations.

The city used the alternative measurement method permitted under GASB Statement No. 45 to project these benefits, using a tool provided by the Washington State's Office of the State Actuary. The city has no active members. Mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman Inc. and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability (AAL) was Projected Unit Credit. The investment return assumption (discount rate) was 4%. The AAL and the net OPEB obligation (NOO) are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Annual OPEB Cost and Net OPEB Obligation

The city's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years as of January 1, 2008. The following table shows the components of the city's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the city's net OPEB. The net OPEB obligation of $538,162 is included as a noncurrent liability on the Statement of Net Position.

	Fiscal Year Ending 12/31/2012	Fiscal Year Ending 12/31/2013	Fiscal Year Ending 12/31/2014
Determination of Annual Required Contribution			
Normal Cost at beginning of year	$ 0	$ 0	$ 0
Amortization of UAAL *	271,475	380,794	353,851
Annual Required Contribution (ARC) at year end	$ 271,475	$ 380,794	$ 353,851
Determination of Net OPEB Obligation			
Annual Required Contribution (ARC) at year end	$ 271,475	$ 380,794	$ 353,851
Interest on prior year Net OPEB Obligation	8,110	7,872	13,940
Adjustment to Annual Required Contribution (ARC)	(16,781)	(17,700)	(31,344)
Annual OPEB Cost	262,804	370,966	336,447
Employer Contributions	(246,226)	(219,268)	(146,781)
Increase (decrease) in Net OPEB Obligation	16,578	151,698	189,666
Net OPEB Obligation - beginning of year	180,220	196,798	348,496
Net OPEB Obligation - end of year	$ 196,798	$ 348,496	$ 538,162

** Unfunded Actuarial Accrued Liability*

The city's OPEB cost, the percentage of OPEB cost contributed to the plan and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 262,804	93.69%	$ 196,798
12/31/2013	$ 370,966	59.11%	$ 348,496
12/31/2014	$ 336,447	43.63%	$ 538,162

Funding Status and Funding Process

As of December 31, 2014 the plan was 0% funded.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Other Retirees (Non-LEOFF1) – Association of Washington Cities Employee Benefit Trust

Trust Description

The City is a participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and nature of the medical and other benefit provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy

The Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the city receiving medical benefits from the Trust contribute $443.30 per month for Medicare enrolled retiree-only coverage, $830.01 for non-Medicare enrolled retiree-only coverage, $1,667.27 for non-Medicare enrolled retiree and spouse coverage, $1,280.56 for Medicare enrolled retiree and non-Medicare enrolled spouse, $1,286.14 for a non-Medicare enrolled retiree and Medicare-enrolled spouse, and $899.43 for Medicare-enrolled retiree and spouse coverage.

Participating Employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF I retirees. The retiree pays for 100% of the premium.

NOTE 9
LONG-TERM DEBT AND LEASES

General Obligation Bonds are a direct obligation of the city for which its full faith and credit are pledged. General Obligation Bonds outstanding at year-end are as follows:

*2011A & B Limited Tax General Obligation Bonds: Issued to the United States of America, acting through the Department of Agriculture, to provide funds for a portion of the costs of renovating and expanding the city's fire station/public safety building. Debt service is paid from the Debt Service Fund and is funded by Real Estate Excise Tax (REET1) and regular property taxes.

*2013 Unlimited Tax General Obligation (UTGO) Refunding Bonds: Issued to provide resources to refund the city's 1998 UTGO Bonds. These refunded bonds were issued to provide funds for improving and equipping a city owned building to create a Public Safety and Community Center. Debt service is paid from the Debt Service Fund and is funded by a special property tax levy. This refunding was undertaken to reduce future interest payments and resulted in a net present value savings of $59,802.

*2013 Limited Tax General Obligation (LTGO) Refunding Bonds: Issued to provide resources to refund the city's 1999 LTGO Bonds. These refunded bonds were issued to provide funds for a portion of the costs of improving and equipping a new Public Safety and Community Center. Debt service is paid from the Debt Service Fund and is funded from regular property taxes. This refunding was undertaken to reduce future interest payments and resulted in a net present value savings of $57,324.

Revenue bonds are payable from revenues generated by the Water and Sewer Funds. Revenue bonds outstanding at year-end are as follows:

*2012A,B,C,&D Water and Sewer Revenue Bonds: Issued to the United States of America, acting through the Department of Agriculture, to provide funds for a portion of the costs of upgrading the city's existing wastewater treatment plant. These bonds included $20,379,000 of monies funded by the American Recovery and Reinvestment Act (ARRA) of 2009. A $995,920 reserve must be established, over the first 10 years of debt repayment, and maintained until used to pay the final debt service. Additionally a short-lived asset reserve account has been established and $36,056 must be deposited into this reserve account annually, to be used for replacement of short-lived equipment.

*2013 Water and Sewer Revenue Refunding Bonds: Issued to provide resources to refund the city's 1999 W&S Revenue Bonds. These refunded bonds were issued to provide funds for sewer utility improvements, including Basin #1 inflow and infiltration reduction costs and treatment plant improvement engineering costs. A $22,636 reserve has been established and must be maintained until used to pay the final debt service. This refunding was undertaken to reduce interest payments and resulted in a net present value savings of $22,959.

*2013 Water and Sewer Revenue Bonds: Issued to provide funds for water utility improvements, the Upper Mountain View Pressure Zone for water mains, storage and treatment and for the design and construction of the Angleside Booster Pump facility. A $275,902 reserve has been established and must be maintained until used to pay the final debt service. These bonds are subject to federal arbitrage requirements and the city is in compliance with these requirements.

*2014 Water and Sewer Revenue Bonds: Issued to the United States of America, acting through the Department of Agriculture, to provide funds for a portion of the costs for upgrades to the city's sewer collection system. These bonds were funded by the American Recovery and Reinvestment Act (ARRA) of 2009. A $130,560 reserve must be established, over the first 10 years of debt repayment, and maintained until used to pay the final debt service.

In 2012, the city issued a water and sewer revenue bond anticipation note, in the form of a non-revolving line of credit, not to exceed the amount of $7,546,000. The note was issued to pay a portion of the costs for upgrades to the city's sewer collection system and was repaid in 2014 from the proceeds of a water and sewer revenue bond sold to the United States of America acting through the Department of Agriculture. These proceeds were funded by the American Recovery and Reinvestment Act (ARRA) of 2009.

State of Washington Public Works Trust Fund Loans are a direct responsibility of the city. Shelton currently has six such loans. Sewer Fund revenues will repay the $660,944 Sewer Basin #1 Construction loan, $1,920,818 Sewer Basin #2 Construction loan, $4,521,654 Sewer Basin #5 Construction loan, and two WWTP Upgrade Design loans of $642,485 and $110,526. Mason County Local Economic Development Program monies will repay $1,312,285 of the $1,536,416 Regional Sewer Satellite Water Reclamation Plant Project Construction loan, and Sewer Fund revenues will repay the remaining balance of $224,131.

Six State of Washington Water Pollution Control Revolving Fund Loans for the WWTP Digester Expansion Project, the Goldsborough Creek Sewer Improvements Construction Project (two), the Basin 5 Sewer Rehabilitation Design Project, the WWTP Upgrade Design Project, and the Basin #3 Sewer Rehabilitation Design Project are a direct responsibility of the city. Sewer Fund revenues will repay the $467,785, $1,605,218, $571,811, $834,734, $1,175,288 and $439,400 Water Pollution Control Revolving Fund Loans. Reserves totaling $358,369 have been established in the Sewer Fund for these loans and must be maintained until used to pay the final debt service of the applicable loan. A $30,049 reserve must be established for the Basin #3 Sewer Rehabilitation Design Project loan during the first 5 years of debt repayment.

Additionally, in 2014 the city was awarded a $9,009,900 Drinking Water State Revolving Loan for the New Upper Mt. View Pressure Zone Construction Project.

Capital Leases through the State of Washington Local Option Capital Asset Lending Program are a direct responsibility of the city, and for which the full faith and credit of the city has been pledged. Shelton currently has one such capital lease, a $156,744 Civic Center Building Energy Savings Improvement Project lease which is a portion of the funding for this project and includes the purchase and installation of an HVAC system of five units. This lease agreement qualifies as a capital lease for accounting purposes, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

General Obligation Bonds
Issuances, Redemptions and Balances Outstanding

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions To Date	Bonds Outstanding 12/31/14
2011A Fire Station/PSB (Non-voted)	10/12/11	10/12/2051	3.75%	$ 2,800,000	$ 96,676	$ 2,703,324
2011B Fire Station/PSB (Non-voted)	10/12/11	10/12/2051	3.75%	$ 1,005,000	$ 34,705	$ 970,295
2013 Refunding Civic Center (Voted 1998)	7/10/13	12/1/2017	2.0%-3.0%	$ 1,070,000	415,000	$ 655,000
2013 Refunding Civic Center (Non-voted 1999)	7/10/13	11/1/2019	1.375%-3.0%	$ 600,000	$ 165,000	$ 435,000
Total General Obligation Bonds:				$ 5,475,000	$ 711,381	$ 4,763,619

At December 31, 2014 the city has $6,008 available in debt service fund to service the general bonded debt.

The City has $12,853,177 of general purpose statutory debt capacity remaining, $7,689,720 without a vote and $5,163,457 with a vote, $14,484,716 for utility purpose with a vote, and $14,484,716 for open space, park and capital facilities with a vote.

The City has $22,127,858 of general purpose constitutional debt capacity remaining, including street, fire, parks and open space, $2,479,685 without a vote and $19,648,173 with a vote, and $28,969,431 for utility purposes with a vote.

Revenue Bonds
Issuances, Redemptions and Balances Outstanding

	Issue Date	Maturity Date	Interest Rate		Original Amount Issued		Redemptions To Date		Bonds Outstanding 12/31/14
2012A Water/Sewer (Non-voted)	2/9/12	2/9/2052	3.75%	$	4,544,000	$	130,221	$	4,413,779
2012B Water/Sewer (Non-voted) ARRA	2/9/12	2/9/2052	2.25%	$	5,000,000	$	199,391	$	4,800,609
2012C Water/Sewer (Non-voted) ARRA	2/9/12	2/9/2052	2.25%	$	6,000,000	$	239,270	$	5,760,730
2012D Water/Sewer (Non-voted) ARRA	2/9/12	2/9/2052	2.25%	$	9,379,000	$	374,022	$	9,004,978
2013 Refunding Water/Sewer (Non-voted 1999)	7/10/13	12/1/2018	2.0%-3.0%	$	265,000	$	75,000	$	190,000
2013 Water/Sewer (Non-voted)	7/10/13	12/1/2032	2.0%-4.625%	$	3,230,000	$	175,000	$	3,055,000
2014 Water/Sewer (Non-voted)	8/21/14	8/21/2054	2.375%	$	3,358,000	$	0	$	3,358,000
Total Revenue Bonds:				$	31,776,000	$	1,192,904	$	30,583,096

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflows; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt discounts.

Restricted assets in the proprietary funds contain $968,739 in sinking funds and reserves as required by bond indentures and state loan agreements.

Annual Debt Service Requirements to Maturity

Governmental Activities

Year	General Obligation Bonds Principal	General Obligation Bonds Interest	Capital Leases Principal	Capital Leases Interest
2015	$ 342,144	$ 167,262	$ 14,626	$ 6,868
2016	353,929	158,008	15,072	6,422
2017	360,781	148,387	15,610	5,884
2018	137,703	137,165	16,330	5,164
2019	149,698	132,619	17,168	4,326
2020 - 2024	306,059	616,181	77,938	8,037
2025 - 2029	368,658	553,682	0	0
2030 - 2034	443,915	478,425	0	0
2035 - 2039	534,536	387,805	0	0
2040 - 2044	643,653	278,686	0	0
2045 - 2049	775,050	147,290	0	0
2050 - 2054	347,493	21,428	0	0
Total	$ 4,763,619	$3,226,938	$ 156,744	$ 36,701

Business-type Activities

Year	Revenue Bonds Principal	Revenue Bonds Interest	State of Washington Loans Principal	State of Washington Loans Interest	Grand Total Required
2015	$ 608,600	$ 806,368	$ 1,123,265	$ 151,109	$ 3,220,242
2016	634,542	790,476	1,137,461	149,400	3,245,310
2017	650,768	773,850	1,150,426	128,089	3,233,795
2018	667,282	756,786	1,155,221	114,942	2,990,593
2019	629,089	739,279	994,926	101,657	2,768,762
2020 - 2024	3,408,535	3,440,317	5,029,572	377,854	13,264,493
2025 - 2029	3,918,140	2,933,743	3,517,201	154,440	11,445,864
2030 - 2034	4,040,077	2,325,217	379,007	14,202	7,680,843
2035 - 2039	3,816,269	1,816,131	0	0	6,554,741
2040 - 2044	4,324,721	1,307,679	0	0	6,554,739
2045 - 2049	4,904,701	727,699	0	0	6,554,740
2050 - 2054	2,980,372	156,225	0	0	3,505,518
Total	$ 30,583,096	$ 16,573,770	$ 14,487,079	$ 1,191,693	$ 71,019,640

Changes in Long Term Liabilities

	Balance 01/01/2014	Additions	Reductions	Balance 12/31/2014	Due Within One Year
Governmental Activities:					
Bonds Payable	$ 5,099,050	$ 0	$ 335,431	$ 4,763,619	$ 342,144
Capital Leases	171,008	0	14,264	156,744	14,626
Other Post-Employment Benefits	348,496	189,666	0	538,162	0
Compensated Absences	409,278	503,525	503,438	409,365	396,300
Total Governmental Activities	$ 6,027,832	$ 693,191	$ 853,133	$ 5,867,890	$ 753,070
Business-type Activities:					
Bonds/BAN Payable	$ 30,898,409	$ 3,578,847	$ 3,894,160	$ 30,583,096	$ 608,600
State of Washington Loans	15,200,694	385,566	1,099,181	14,487,079	1,123,265
Compensated Absences	117,759	174,484	172,431	119,812	92,735
Total Business-type Activities	$ 46,216,862	$ 4,138,897	$ 5,165,772	$ 45,189,987	$ 1,824,600

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, internal service funds compensated absences of $10,092 are included in the above amounts.

NOTE 10
CONTINGENCIES AND LITIGATION

The city has recorded in its financial statements all material liabilities. As of December 31, 2014, there are no pending claims or lawsuits against the city that would materially impact the City's financial position on an individual or aggregate basis. In the opinion of management, the city's insurance policies and self-insurance reserves are adequate to pay all known or pending claims.

As discussed in Note 9, Long-Term Debt and Leases, the city is continently liable for repayment of refunded debt.

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

NOTE 11
RISK MANAGEMENT

The city maintains insurance against most normal hazards except for unemployment and sick leave buy back, where it has elected to become self-insured. (Self-insurance is in effect for total losses.)

Unemployment

Claims are processed by the State of Washington Department of Employment Security. The Payroll Benefits Trust Fund was established in accordance with RCW 50.44.060 and RCW 50.44.070. This Fund is responsible for collecting interfund premiums from insured funds, and for paying claim settlements. Interfund premiums are reported as revenues and expenses as expenditures. The city reinstated assessing premiums on the basis of claims experience in January 2011.

Sick Leave Buy Back and Retired Police Medical

The Payroll Benefits Trust Fund is responsible for collecting interfund sick leave buy back premiums from insured funds, and for paying claim settlements. Premiums are assessed on the basis of claims experience and are reported as revenues, expenses or expenditures. Retired LEOFF I police employee's medical bills and insurance premiums are paid out of the Payroll Benefits Trust Fund and then billed to the General Fund for payment.

Washington Cities Insurance Authority

The City of Shelton 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 175 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

There have been no settlements in the past three years that exceeded the City's insurance coverage.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

NOTE 12
OTHER DISCLOSURES

Accounting and Reporting Changes

Implementation of GASB 67

The City implemented GASB 67, "Financial Reporting for Pension Plans".

Subsequent Events

"C" Street Landfill

The City acquired the 16.7-acre C Street Landfill site in 1928, and operated a landfill there until 1974. In 2015, the City was identified as a Potential Liable Party under the State Model Toxics Control Act (MTCA), and commenced discussions with the Washington State Department of Ecology (Ecology) regarding compliance with MTCA, and sources for grant funding to assist with the necessary studies and ultimately site clean-up. Ecology has not issued an agreed order; however, the City has retained a consultant to assist with coordination between the City and Ecology, with a remedial investigation and feasibility study to be performed by the first quarter of 2016. The outcome of this study will include cost estimates for the preferred action plan.

Shelton Transportation Benefit District

The City of Shelton approved the creation of the Shelton Transportation Benefit District on March 30, 2015 with the boundaries contiguous with the boundaries of the City of Shelton. The district will be governed by the Shelton City Commission as the ex officio governing board and have all the powers under chapter 36.73 RCW. The purpose of the district is to improve and protect the City's long term investment in its transportation infrastructure, to reduce the risk of transportation facility failure, to improve safety, to avoid more expensive infrastructure replacements in the future, and to reduce congestion or stem the expected increase in congestion created by failing roads. The district will submit to the voters at a special election on November 3, 2015, a proposition to impose a sales and use tax of two-tenths of one percent for the purpose of financing all or a portion of the costs associated with the transportation improvements in the district. The city will provide services to this district through an interlocal agreement, pursuant to Chapter 39.34 RCW. The City of Shelton, as Treasurer of the district, will hold their resources in an agency fund

CITY OF SHELTON, WASHINGTON
SCHEDULE OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
GENERAL FUND
For the Year Ended December 31, 2014

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes	$ 6,162,212	$ 6,162,212	$ 6,352,750	$ 190,538
Licenses and Permits	226,250	226,250	190,242	(36,008)
Intergovernmental Revenue	965,964	965,964	1,332,715	366,751
Charges for Services	2,709,748	2,709,748	2,209,066	(500,682)
Fines and Penalties	111,855	111,855	111,985	130
Miscellaneous Revenue	95,769	95,769	122,648	26,879
TOTAL REVENUES	10,271,798	10,271,798	10,319,406	47,608
EXPENDITURES				
Current:				
General Government Services	3,853,408	3,863,597	3,538,549	325,048
Public Safety	4,053,296	4,133,609	4,071,152	62,457
Transportation	796,676	795,043	747,200	47,843
Natural and Economic Environment	864,411	1,380,271	1,067,478	312,793
Mental and Physical Health	2,011	2,011	1,836	175
Culture and Recreation	481,718	481,718	406,029	75,689
Debt Service:				
Principal Retirement	14,264	14,264	14,264	0
Interest and Other Debt Service Costs	7,830	7,830	7,230	600
Capital Outlay	262,649	277,578	25,543	252,035
TOTAL EXPENDITURES	10,336,263	10,955,921	9,879,281	1,076,640
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(64,465)	(684,123)	440,125	1,124,248
OTHER FINANCING SOURCES (USES)				
Proceeds of General Long-Term Debt	0	0	0	0
Transfers - Out	(978,876)	(990,309)	(430,925)	559,384
Sale of Capital Assets, Net of Costs	100,000	100,000	5,000	(95,000)
Compensation for Loss of Capital Assets	0	0	2,002	2,002
Insurance Recoveries-NonCaital	0	0	1,304	1,304
TOTAL OTHER FINANCING SOURCES AND USI	(878,876)	(890,309)	(422,619)	467,690
NET CHANGE IN FUND BALANCE	(943,341)	(1,574,432)	17,506	1,591,938
FUND BALANCE, BEGINNING	2,532,685	2,532,685	2,931,769	399,084
FUND BALANCE, ENDING	$ 1,589,344	$ 958,253	2,949,275	$ 1,991,022
ADJUSTMENTS TO CONFORM WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:				
Decrease in Revenues			(39,759)	
Decrease in Expenditures			32,169	
FUND BALANCE, DECEMBER 31 (GAAP BASIS)			$ 2,941,685	

The accompanying notes are an integral part of this statement.

REQUIRED SUPPLEMENTARY INFORMATION

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 Retirees

Other Postemployment Benefits (OPEB) – Medical Benefits

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2012	0	$ 2,915,513	$ 2,915,513	0%	0	N/A
12/31/2013	0	$ 4,233,819	$ 4,233,819	0%	0	N/A
12/31/2014	0	$ 3,934,255	$ 3,934,255	0%	0	N/A

The purpose of this disclosure is to provide information that approximates the funding progress of the plan

Other Local Government Pension Systems – Firemen's Pension Retirement System

Actuarial Methods and Assumptions

Mortality rates were based on the RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members). The long-term expected rate of return is determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The discount rate of 3.50% as of December 31, 2014 is believed to be an appropriate long-term expected rate of return for those investments in the plan and will be recalculated as of later valuation dates. The Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years is 3.56% as of December 31, 2014, which when rounded to the nearest ¼% resulted in a discount rate of 3.50%. Using 3.50% for both the long-term expected rate of return and the bond index allows for the use of a single discount rate.

Schedule of Changes in Net Pension Liability and Related Ratios

$ Thousands

	Fiscal Year Ending December 31, 2014
Total Pension Liability	
Service cost	0
Interest on total pension liability	20
Effect of plan changes	0
Effect of economic/demographic gains or (losses)	0
Effect of assumption changes or inputs	14
Benefit payments	(34)
Net change in total pension liability, beginning	(1)
Total pension liability, beginning	565
Total pension liability, ending (a)	564

Fiduciary Net Position	
Employer contributions	141
Contributions from state fire insurance premium tax	6
Investment income net of investment expenses	0
Benefit payments	(34)
Medical payments from fund	(60)
Administrative expenses	(9)
Net change in plan fiduciary net position	44
Fiduciary net position, beginning	246
Fiduciary net position, ending (b)	290
Net pension liability, ending = (a) – (b)	274
Fiduciary net position as a % of total pension liability	51.39%
Covered payroll	0
Net pension liability as a % of covered payroll	N/A

Schedule of Employer Contributions

Fiscal Year Ending	Actuarially Determined Contribution	Actual Employer Contribution*	Contributions Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
December 31, 2005	(12,433)	354	(12,787)	0	N/A
December 31, 2006	(9,876)	(10,407)	531	0	N/A
December 31, 2007	(9,876)	(20,762)	10,886	0	N/A
December 31, 2008	2,479	(9,548)	12,027	0	N/A
December 31, 2009	2,479	12,122	(9,643)	0	N/A
December 31, 2010	21,662	(4,802)	26,464	0	N/A
December 31, 2011	21,662	13,170	8,492	0	N/A
December 31, 2012	28,160	22,698	5,462	0	N/A
December 31, 2013	28,160	37,155	(8,995)	0	N/A
December 31, 2014	26,885	86,396	(59,511)	0	N/A

** Employer Contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150. It includes revenues from fire insurance premium taxes. Prior to 2014, administrative expenses were also subtracted from employer contributions..*

Schedule of Investment Returns

Fiscal Year Ending	Net Money-Weighted Rate of Return
December 31, 2014	0.15%

Schedule of Funding Progress
Rounded to Thousands

Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
April 1, 1998	246	235	(11)	105%	0	N/A
April 1, 2000	332	284	(48)	117%	0	N/A
April 1, 2002	274	235	(39)	117%	0	N/A
April 1, 2004	385	248	(137)	155%	0	N/A
April 1, 2006	410	278	(132)	147%	0	N/A
Jan 1, 2008	304	337	33	90%	0	N/A
Jan 1, 2010	301	595	294	51%	0	N/A
Jan 1, 2012	252	608	356	41%	0	N/A
Jan 1, 2014	246	565	319	44%	0	N/A

The schedule of Funding Progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Shelton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
CDBG - State-Administered CDBG Cluster							
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA State Dept of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	11-64100-024	518,766	-	518,766	4
	Total CDBG - State-Administered CDBG Cluster:			**518,766**	**-**	**518,766**	
Clean Water State Revolving Fund Cluster							
Office Of Water, Environmental Protection Agency (via WA State Dept of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1200003	86,071	-	86,071	3b
	Total Clean Water State Revolving Fund Cluster:			**86,071**	**-**	**86,071**	
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	STPUS-1165(003)	8,108	-	8,108	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	AC-STPE-003(078)	63,655	-	63,655	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	STPUS-0003(101)	47,120	-	47,120	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	STPUS-5425(001)	341,054	-	341,054	
	Total Highway Planning and Construction Cluster:			**459,937**	**-**	**459,937**	

The accompanying notes are an integral part of this statement.

Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State TSC)	State and Community Highway Safety	20.600	N/A	2,060	-	2,060	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State TSC)	State and Community Highway Safety	20.600	14ST-11	16,292	-	16,292	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State WASPC)	State and Community Highway Safety	20.600	N/A	2,800	-	2,800	
			Total CFDA 20.600:	**21,152**	**-**	**21,152**	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA State TSC)	Occupant Protection Incentive Grants	20.602	N/A	535	-	535	
			Total Highway Safety Cluster:	**21,687**	**-**	**21,687**	
JAG Program Cluster							
Bureau Of Justice Assistance, Department Of Justice (via Westnet)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	70,055	-	70,055	
			Total JAG Program Cluster:	**70,055**	**-**	**70,055**	
Other Programs							
Violence Against Women Office, Department Of Justice (via WA State Dept of Commerce)	Violence Against Women Formula Grants	16.588	F13-31103-026	495	-	495	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	N/A	-	913	913	
Water and Waste Program Cluster							
Rural Utilities Service, Department Of Agriculture	ARRA - Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	N/A	-	1,757,498	1,757,498	5
Rural Utilities Service, Department Of Agriculture	ARRA - Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	N/A	-	10,077	10,077	3a, 5
			Total Water and Waste Program Cluster:	**-**	**1,767,575**	**1,767,575**	
			Total Federal Awards Expended:	**1,157,011**	**1,768,488**	**2,925,499**	

The accompanying notes are an integral part of this statement.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 full accrual basis of accounting in the government-wide financial statements, and in the proprietary and fiduciary fund financial statements, and the modified accrual basis of accounting in all governmental fund financial statements.

NOTE 2
PROGRAM COSTS

The amounts shown as current year expenditures represent only the state or federal grant portion of the program costs. Entire program costs, including the city's portion, may be more than shown.

NOTE 3
FEDERAL LOANS

(a) The city was approved by USDA-RD to receive a loan totaling $7,546,000 for upgrades to the sewer collection system and related improvements. This loan is funded by ARRA. The amount listed for this loan includes the loan proceeds earned during the year. A $3,358,000 bond was issued to USDA-RD in 2014 to pay a portion of the sewer collection system upgrade project costs including repayment of the bond anticipation note and interest.

(b) The city was approved by the State Department of Ecology to receive a loan totaling $439,400 for design of the Sewer Basin 3 infrastructure improvements. The U.S. Environmental Protection Agency is providing $366,155 of these monies. The amount listed for this loan includes the federal proceeds received during the year.

NOTE 4
AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program is $515,860 that was passed through to a subrecipient that administered its own project.

NOTE 5
AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

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.

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