



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Stevenson

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

Published September 6, 2018

Report No. 1022058





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

September 6, 2018

Mayor and City Council
City of Stevenson
Stevenson, Washington

Report on Financial Statements

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

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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

**City of Stevenson
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Stevenson
Stevenson, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Stevenson, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 29, 2018.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

August 29, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council
City of Stevenson
Stevenson, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Stevenson, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Stevenson, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2018 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

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

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

Pat McCarthy

State Auditor

Olympia, WA

August 29, 2018

FINANCIAL SECTION

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

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

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

		Total for All Funds (Memo Only)	001 General Fund	100 Street Fund	103 Tourism Promo & Develop Fund
Beginning Cash and Investments					
30810	Reserved	1,554,857	422,774	-	604,104
30880	Unreserved	1,796,015	989,384	79,418	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	1,616,830	806,578	329,491	456,932
320	Licenses and Permits	83,516	82,666	850	-
330	Intergovernmental Revenues	915,005	27,267	47,973	-
340	Charges for Goods and Services	1,113,659	89,811	-	-
350	Fines and Penalties	6,120	6,120	-	-
360	Miscellaneous Revenues	73,926	9,083	225	4,224
Total Revenues:		3,809,055	1,021,524	378,539	461,156
Expenditures					
510	General Government	302,742	302,742	-	-
520	Public Safety	252,638	252,638	-	-
530	Utilities	848,201	-	-	-
540	Transportation	380,204	-	275,472	-
550	Natural and Economic Environment	728,316	197,989	-	-
560	Social Services	6,409	6,148	260	-
570	Culture and Recreation	418,697	86,208	-	332,489
Total Expenditures:		2,937,206	845,725	275,732	332,489
Excess (Deficiency) Revenues over Expenditures:		871,849	175,800	102,807	128,667
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	10,791	7,020	3,771	-
381, 395, 398	Other Resources	1,407,131	-	-	-
Total Other Increases in Fund Resources:		1,417,922	7,020	3,771	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,966,357	146,202	39,813	203,771
591-593, 599	Debt Service	60,350	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	10,440	6,669	3,771	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		2,037,147	152,871	43,584	203,771
Increase (Decrease) in Cash and Investments:		252,624	29,949	62,994	(75,104)
Ending Cash and Investments					
5081000	Reserved	1,225,457	420,259	-	529,000
5088000	Unreserved	2,378,039	1,021,847	142,413	-
Total Ending Cash and Investments		3,603,496	1,442,106	142,413	529,000

The accompanying notes are an integral part of this statement.

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

		300 Capital Improvement Fund	301 Timber Harvest Fund	306 Kanaka Creek Road Improvements	308 Gropper Sidewalk
Beginning Cash and Investments					
30810	Reserved	46,554	-	(38,505)	-
30880	Unreserved	-	560,003	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	23,830	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	598,530	241,234
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	218	-	-	-
Total Revenues:		24,048	-	598,530	241,234
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	530,327	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	530,327	-	-
Excess (Deficiency) Revenues over Expenditures:		24,048	(530,327)	598,530	241,234
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	1,406,805	-	-
Total Other Increases in Fund Resources:		-	1,406,805	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	384,446	631,460	261,732
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	384,446	631,460	261,732
Increase (Decrease) in Cash and Investments:		24,048	492,032	(32,930)	(20,498)
Ending Cash and Investments					
5081000	Reserved	70,602	-	(71,435)	(20,498)
5088000	Unreserved	-	1,052,035	-	-
Total Ending Cash and Investments		70,602	1,052,035	(71,435)	(20,498)

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

		400	500 Equipment
		Water/Sewer	Service Fund
		Fund	
Beginning Cash and Investments			
30810	Reserved	519,929	-
30880	Unreserved	103,226	63,984
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	881,503	142,344
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	59,194	981
Total Revenues:		940,698	143,326
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	848,201	-
540	Transportation	-	104,733
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		848,201	104,733
Excess (Deficiency) Revenues over Expenditures:		92,496	38,592
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	-	326
Total Other Increases in Fund Resources:		-	326
Other Decreases in Fund Resources			
594-595	Capital Expenditures	266,756	32,176
591-593, 599	Debt Service	57,107	3,243
597	Transfers-Out	-	-
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581	Other Uses	-	-
Total Other Decreases in Fund Resources:		323,863	35,419
Increase (Decrease) in Cash and Investments:		(231,367)	3,499
Ending Cash and Investments			
5081000	Reserved	297,529	-
5088000	Unreserved	94,260	67,484
Total Ending Cash and Investments		391,789	67,484

City of Stevenson
Notes to the Financial Statements
For the year ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

The City of Stevenson was incorporated on December 2, 1907 and operates under the laws of the state of Washington applicable to a non-charter code city with a mayor–council form of government. The city is a general purpose local government and provides public safety, fire prevention, street maintenance, planning, parks maintenance, water and sewer, municipal court, health and social services and general administrative services.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government. The City of Stevenson uses two Special Revenue Funds: A Street Fund and a Tourism Promotion Fund (Lodging tax fund).

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the

acquisition or construction of capital facilities or other capital assets. The City of Stevenson uses one primary Capital Projects Fund (Fund 300) with separate capital projects funds for each major project.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. The City of Stevenson uses one Enterprise Fund, the Water / Sewer Fund.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis. The City of Stevenson uses one Internal Service Fund, the Equipment Service Fund.

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The city adopts annual appropriated budgets for eleven funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	1,161,800.00	998,596.00	163,204.00
Street Fund	336,200.00	319,316.00	16,923.00
Tourism Promotion	625,415.00	536,260.00	89,144.00
Capital Improvements	-	-	-
Timber Harvest	1,400,000.00	914,773.00	509,376.00
Kanaka Creek Rd	791,672.00	631,460.00	160,212.00
Gropper Road Sidewalk	400,395.00	261,732.00	138,663.00
Water/Sewer	1,158,137.00	1,172,064.00	(13,927.00)
Equipment Service	146,244.00	140,152.00	6,092.00

Budgeted amounts are authorized to be transferred between departments within any fund/object

classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city's legislative body.

The over-expenditure of \$13,927 in the Water/Sewer fund is offset by an increase of \$30,133 in received revenue.

D. Cash and Investments

See Note 2, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$500. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement. Sick leave may be accumulated up to 1,440 hours. Upon separation after 25 years or retirement employees do receive payment for unused sick leave at the rate of 25% of the total remaining balance. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

- General Fund – Reserved Ending Cash and Investments include a Fire Truck Reserve, Fire Equipment Reserve, an Unemployment reserve, and custodial accounts.
- Tourism Promotion Fund – The primary source of revenue in the Tourism Promotion Fund is lodging tax receipts, which are reserved for tourism promotion activities per state law (RCW 67.28.1816).
- Capital Improvement Fund - The primary source of revenue in the Capital Improvement Fund is the Real Estate Excise Tax (REET) which is reserved for certain types of capital improvements per state law (RCW 82.46.010).
- Water / Sewer Fund – The reserved portions of the Water / Sewer Fund are primarily from new connection charges (Systems Development Charges) that are required by state law to be used for new construction activities related to water and sewer plant capital improvements, and a debt service reserve account required by the USDA for the sewer outfall loan.

Note 2 – Deposits and Investments

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

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

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
Local Government Investment Pool	\$845,921.86
Public Funds Certificates of Deposit	100,242.79
Government Bonds	<u>896,739.70</u>
Total:	<u><u>\$1,842,904.35</u></u>

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

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

The city's regular levy for the year 2017 was \$2.197955 per \$1,000 on an assessed valuation of \$201,350,107 for a total regular levy of \$442,558.

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2017.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	48,452	11,712	60,164
2019	46,024	10,850	56,874
2020	46,654	10,104	56,758
2021	47,302	9,340	56,642
2022	47,967	8,558	56,525
2023-2027	227,204	30,376	257,580
2028-2032	137,378	9,616	146,994
Total	<u>600,981</u>	<u>90,556</u>	<u>691,537</u>

Note 5 – Pension Plans

A. State Sponsored Pension Plans

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

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

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

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

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

The city also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2017 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$32,257	% 0.005363	\$ 254,479
PERS 2/3	42,131	0.006898	239,673
VFFRPF	720	0.34	(124,811)

Note 6 – Risk Management

The City of Stevenson is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of December 1, 2017, there are 201 members in the program.**

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision; Equipment Breakdown; and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of \$100,000, with **the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000.** The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, **with an attachment point of \$1,784,067.00.**

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

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

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

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

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

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending **December 1, 2017, were \$1,501,903.83.**

The Unemployment Reserve in the General Fund (Fund 001) is responsible for paying unemployment claims. The Unemployment Reserve is deemed by the City to have sufficient funds to pay expected claims so transfers from insured funds have been suspended since 2010. The balance in the Unemployment Reserve is reviewed annually.

Unemployment claims are processed by the Washington State Employment Security Department. Claims filed are sent to the City of Stevenson for verification and approval or contestment. The Employment Security Department then bills the City of Stevenson for claims paid.

Note 7 – Health and Welfare

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

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

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

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

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

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

Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

Note 8 – Negative Ending Cash and Investments

Fund 306 (Kanaka Creek Road Improvements) and 308 (Gropper Road Sidewalk) reported negative Ending Cash and Investments. The City has accounts receivables for these funds that are not reflected in Ending Cash and Investments because the City is on the Cash Basis of Accounting. Cash and Investments in this fund will be restored to a positive balance in 2018 as the amount due from other agencies is received and the projects are closed out.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	USDA Street Sweeper Loan	10/1/2018	6,021	-	2,980	3,041
Total General Obligation Debt/Liabilities:			6,021	-	2,980	3,041
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	PWTF Loan, Water System Upgrade	6/1/2026	232,734	-	23,273	209,461
252.11	USDA RDA Loan, Sewer Outfall	12/20/2033	410,022	-	21,542	388,480
264.30	State Retirement System		633,384	-	139,233	494,151
259.12	Sick Leave Buyout		17,558	3,879	-	21,437
259.12	Vacation Accrual		33,472	2,221	-	35,693
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,327,170	6,100	184,049	1,149,222
Total Liabilities:			1,333,191	6,100	187,028	1,152,263

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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