



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Castle Rock

For the period January 1, 2017 through December 31, 2018

Published October 24, 2019

Report No. 1024837





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

October 24, 2019

Mayor and City Council
City of Castle Rock
Castle Rock, Washington

Report on Financial Statements

Please find attached our report on the City of Castle Rock'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

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	65

**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 Castle Rock
January 1, 2017 through December 31, 2018**

Mayor and City Council
City of Castle Rock
Castle Rock, 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 Castle Rock, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 17, 2019.

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 audits 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.

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

October 17, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Castle Rock January 1, 2017 through December 31, 2018

Mayor and City Council
City of Castle Rock
Castle Rock, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Castle Rock, for the years ended December 31, 2018 and 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 audits. We conducted our audits 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 Castle Rock 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 cash and investments of the City of Castle Rock, and its changes in cash and investments, for the years ended December 31, 2018 and 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 Castle Rock, as of December 31, 2018 and 2017, or the changes in financial position or cash flows for the years 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 audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2019 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 cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

October 17, 2019

FINANCIAL SECTION

City of Castle Rock January 1, 2017 through December 31, 2018

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2018
Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to Financial Statements – 2018
Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018
Schedule of Liabilities – 2017

City of Castle Rock
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	010 General Fund	120 Visitor Center fund	130 Library Fund
Beginning Cash and Investments					
30810	Reserved	847,271	52,541	-	45,251
30880	Unreserved	1,805,924	175,638	86,630	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	1,404,581	1,299,643	15,645	63,262
320	Licenses and Permits	69,848	69,848	-	-
330	Intergovernmental Revenues	616,716	172,567	62,825	-
340	Charges for Goods and Services	3,330,363	94,204	-	4,026
350	Fines and Penalties	20,479	20,479	-	-
360	Miscellaneous Revenues	50,885	14,996	472	145
Total Revenues:		5,492,872	1,671,738	78,942	67,433
Expenditures					
510	General Government	337,767	328,052	1,308	1,308
520	Public Safety	931,779	931,779	-	-
530	Utilities	2,391,553	8,850	-	-
540	Transportation	168,017	86,441	-	-
550	Natural and Economic Environment	128,420	79,646	48,599	4
560	Social Services	585	585	-	-
570	Culture and Recreation	151,009	7,615	8,348	70,223
Total Expenditures:		4,109,130	1,442,969	58,255	71,535
Excess (Deficiency) Revenues over Expenditures:		1,383,742	228,769	20,687	(4,102)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	75,600	45,600	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	29,991	21,751	-	-
381, 395, 398	Other Resources	134,755	-	-	-
Total Other Increases in Fund Resources:		240,346	67,351	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,109,357	75,986	232	520
591-593, 599	Debt Service	572,129	48,210	-	-
597	Transfers-Out	75,600	-	37,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	19,387	19,338	49	-
581	Other Uses	45,534	29,534	-	-
Total Other Decreases in Fund Resources:		1,822,007	173,068	37,281	520
Increase (Decrease) in Cash and Investments:		(197,919)	123,052	(16,594)	(4,622)
Ending Cash and Investments					
5081000	Reserved	594,321	109,339	-	40,630
5088000	Unreserved	1,860,955	241,893	70,036	-
Total Ending Cash and Investments		2,455,276	351,231	70,036	40,630

The accompanying notes are an integral part of this statement.

City of Castle Rock
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		160 CDBG Grant/Home Rehab Project	170 DOT Spoil Site Fund	195 Low Income Housing Fund	300 Swimming Pool Const Fund, 1987
Beginning Cash and Investments					
30810	Reserved	165,112	8,868	43,454	100,651
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	3,000	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	333	-	-
Total Revenues:		-	333	3,000	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	61	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	46,849	-	-
Total Expenditures:		-	46,909	-	-
Excess (Deficiency) Revenues over Expenditures:		-	(46,576)	3,000	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	14,000	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	24,156	-	29,534
Total Other Increases in Fund Resources:		-	38,156	-	29,534
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	16,000
Total Other Decreases in Fund Resources:		-	-	-	16,000
Increase (Decrease) in Cash and Investments:		-	(8,421)	3,000	13,534
Ending Cash and Investments					
5081000	Reserved	165,112	448	46,454	114,186
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		165,112	448	46,454	114,186

City of Castle Rock
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		310 REET Capital Fund	320 Street Construction Capital Fund	400 Utilities	420 Stormwater
Beginning Cash and Investments					
30810	Reserved	49,407	11,317	370,669	-
30880	Unreserved	-	-	1,396,787	142,191
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	26,031	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	378,325	-	-
340	Charges for Goods and Services	-	-	3,112,576	119,556
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	21,611	-
Total Revenues:		26,031	378,325	3,134,187	119,556
Expenditures					
510	General Government	-	-	5,679	1,420
520	Public Safety	-	-	-	-
530	Utilities	-	-	2,343,611	39,092
540	Transportation	-	-	1,800	79,776
550	Natural and Economic Environment	-	-	38	65
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	2,351,128	120,352
Excess (Deficiency) Revenues over Expenditures:		26,031	378,325	783,059	(797)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	13,000	3,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	8,240	-
381, 395, 398	Other Resources	-	-	80,367	697
Total Other Increases in Fund Resources:		-	13,000	91,607	697
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	740,648	258,713	33,257
591-593, 599	Debt Service	-	-	523,919	-
597	Transfers-Out	35,600	-	-	3,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		35,600	740,648	782,632	36,257
Increase (Decrease) in Cash and Investments:		(9,569)	(349,323)	92,034	(36,357)
Ending Cash and Investments					
5081000	Reserved	39,838	(338,006)	416,321	-
5088000	Unreserved	-	-	1,443,169	105,834
Total Ending Cash and Investments		39,838	(338,006)	1,859,490	105,834

City of Castle Rock
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		475 Boat Launch Facility Fund
		<hr/>
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	4,678
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	13,327
Total Revenues:		<hr/> 13,327
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	8
560	Social Services	-
570	Culture and Recreation	17,975
Total Expenditures:		<hr/> 17,982
Excess (Deficiency) Revenues over Expenditures:		<hr/> (4,656)
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	-
Total Other Increases in Fund Resources:		<hr/> -
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
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:		<hr/> -
Increase (Decrease) in Cash and Investments:		<hr/> (4,656)
Ending Cash and Investments		
5081000	Reserved	-
5088000	Unreserved	23
Total Ending Cash and Investments		<hr/> 23

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

		Total for All Funds (Memo Only)	010 General Fund	120 Visitor Center Fund	130 Library Fund
Beginning Cash and Investments					
30810	Reserved	817,799	52,618	48,627	42,077
30880	Unreserved	1,666,314	264,310	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	1,281,092	1,172,754	14,558	61,471
320	Licenses and Permits	77,380	77,380	-	-
330	Intergovernmental Revenues	241,746	149,049	-	-
340	Charges for Goods and Services	3,177,696	93,542	-	2,545
350	Fines and Penalties	23,973	23,973	-	-
360	Miscellaneous Revenues	132,023	27,516	3,298	420
Total Revenues:		4,933,910	1,544,214	17,856	64,436
Expenditures					
510	General Government	345,775	345,775	-	-
520	Public Safety	989,401	989,401	-	-
530	Utilities	2,212,831	9,650	-	-
540	Transportation	167,981	96,717	-	-
550	Natural and Economic Environment	107,909	88,979	18,930	-
560	Social Services	578	578	-	-
570	Culture and Recreation	137,538	7,786	8,354	60,623
Total Expenditures:		3,962,013	1,538,886	27,283	60,623
Excess (Deficiency) Revenues over Expenditures:		971,897	5,328	(9,427)	3,813
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	55,525	55,525	-	-
397	Transfers-In	26,500	20,500	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	30,323	19,937	164	-
381, 395, 398	Other Resources	178,526	2,548	110,329	-
Total Other Increases in Fund Resources:		290,873	98,509	110,492	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	442,343	90,232	54,427	638
591-593, 599	Debt Service	569,701	44,344	-	-
597	Transfers-Out	26,500	3,000	8,500	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	19,530	19,395	135	-
581	Other Uses	35,615	35,615	-	-
Total Other Decreases in Fund Resources:		1,093,689	192,586	63,062	638
Increase (Decrease) in Cash and Investments:		169,082	(88,748)	38,003	3,175
Ending Cash and Investments					
5081000	Reserved	847,271	52,541	-	45,251
5088000	Unreserved	1,805,924	175,638	86,630	-
Total Ending Cash and Investments		2,653,195	228,179	86,630	45,251

The accompanying notes are an integral part of this statement.

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

		160 Cdbg Grant/home Rehab Project	170 Dot Spoil Site	195 Low Income Housing Fund	300 Swimming Pool Const Fund, 1987
Beginning Cash and Investments					
30810	Reserved	165,112	18,991	40,454	72,133
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	3,000	-
340	Charges for Goods and Services	-	6,040	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	7,869	-	-
Total Revenues:		-	13,909	3,000	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	26,376	-	-
Total Expenditures:		-	26,376	-	-
Excess (Deficiency) Revenues over Expenditures:		-	(12,467)	3,000	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	2,344	-	28,518
Total Other Increases in Fund Resources:		-	2,344	-	28,518
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
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:		-	-	-	-
Increase (Decrease) in Cash and Investments:		-	(10,123)	3,000	28,518
Ending Cash and Investments					
5081000	Reserved	165,112	8,868	43,454	100,651
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		165,112	8,868	43,454	100,651

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

		310 Reet Capital Fund	320 Street Construction Capital Fund	400 Water/Sewer Operating Fund	420 Stormwater Management Fund
Beginning Cash and Investments					
30810	Reserved	29,099	(21,018)	369,706	-
30880	Unreserved	-	-	1,267,771	133,899
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	32,308	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	48,454	41,243	-
340	Charges for Goods and Services	-	-	2,948,349	126,345
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	33,460	36,600	6,740
Total Revenues:		32,308	81,914	3,026,192	133,085
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	2,168,635	34,546
540	Transportation	-	-	1,800	69,463
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	2,170,435	104,010
Excess (Deficiency) Revenues over Expenditures:		32,308	81,914	855,757	29,075
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	6,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	10,223	-
381, 395, 398	Other Resources	-	-	11,045	-
Total Other Increases in Fund Resources:		-	-	27,267	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	49,579	227,689	17,784
591-593, 599	Debt Service	-	-	525,357	-
597	Transfers-Out	12,000	-	-	3,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		12,000	49,579	753,046	20,784
Increase (Decrease) in Cash and Investments:		20,308	32,335	129,979	8,292
Ending Cash and Investments					
5081000	Reserved	49,407	11,317	370,669	-
5088000	Unreserved	-	-	1,396,787	142,191
Total Ending Cash and Investments		49,407	11,317	1,767,455	142,191

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

		475 Boat Launch Facility Fund
		<hr/>
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	334
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	875
350	Fines and Penalties	-
360	Miscellaneous Revenues	16,121
Total Revenues:		<hr/> 16,996
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	34,400
Total Expenditures:		<hr/> 34,400
Excess (Deficiency) Revenues over Expenditures:		<hr/> (17,405)
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	23,742
Total Other Increases in Fund Resources:		<hr/> 23,742
Other Decreases in Fund Resources		
594-595	Capital Expenditures	1,994
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	0
581	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> 1,994
Increase (Decrease) in Cash and Investments:		<hr/> 4,343
Ending Cash and Investments		
5081000	Reserved	-
5088000	Unreserved	4,678
Total Ending Cash and Investments		<hr/> 4,678

City of Castle Rock
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	Private-Purpose Trust	Agency
308	Beginning Cash and Investments	88,034	0	88,034
388 & 588	Prior Period Adjustment, Net	-	-	-
310-390	Additions	102,999	-	102,999
510-590	Deductions	74,116	-	74,116
	Net Increase (Decrease) in Cash and Investments:	28,883	-	28,883
508	Ending Cash and Investments	116,917	0	116,917

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	Private-Purpose Trust	Agency
308	Beginning Cash and Investments	91,515	0	91,515
388 & 588	Prior Period Adjustment, Net	-	-	-
310-390	Additions	97,809	-	97,809
510-590	Deductions	101,290	-	101,290
	Net Increase (Decrease) in Cash and Investments:	(3,481)	-	(3,481)
508	Ending Cash and Investments	88,034	0	88,034

The accompanying notes are an integral part of this statement.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Note 1 - Summary of Significant Accounting Policies

The City of Castle Rock, Washington was incorporated on June 20, 1890 and operates under the laws of the state of Washington applicable to a non-charter Code City. The City is a general purpose local government and provides public safety, street improvement, parks, library, recreation and general administrative services. The City owns a water system and operates a water treatment plant in a joint venture with Cowlitz County. In addition, the City also owns and operates a sewer system and sewage treatment plant.

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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

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

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

E. Compensated Absences

Vacation leave may be accumulated as outlined below:

Supervisory Staff and Non-Bargaining Employees	Police Bargaining Unit	Clerical Bargaining Unit	Public Works Bargaining Unit	Police Chief Employment Agreement	Clerk-Treasurer Employment Agreement
240 hours	280 hours	240 hours	240 hours	280 hours	280 hours

Supervisory Staff and Eligible Non-Bargaining Employees may exceed allowable accruals, upon written approval by the mayor.

Bargaining unit employees cannot exceed the maximum accrual hours, without obtaining prior written approval from the department supervisor or mayor. Additional approved time must be used down to the maximum hours within ninety days of the signed approval unless special provisions are authorized by the mayor. Public Works and Clerical Bargaining Units require any vacation hours accrued in excess of the 240 hours accrual limit (and not having obtained written approval for the overage) to be paid at the end of the month following accrual of the excess hours.

For all eligible employees, vacation accruals are payable upon separation or retirement.

Sick leave may be accumulated as outlined below:

Supervisory Staff and Non-Bargaining Employees	Police Bargaining Unit	Clerical Bargaining Unit	Public Works Bargaining Unit	Police Chief Employment Agreement	Clerk-Treasurer Employment Agreement
840 hours	720 hours	720 hours	840 hours	720 hours	indefinite

The Police Bargaining Unit employees and the Police Chief accumulating over 720 hours of sick leave shall exchange all additional accumulated sick leave for pay at the rate of 50% (8 hours additional would be 4 hours paid at regular rate of pay, 4 hours loss) processed in the final payroll period of the applicable year.

Upon separation or retirement, Public Works Bargaining Unit employees do not receive payment for unused sick leave.

Clerical and Police Bargaining Units, Police Chief and Clerk-Treasurer employees receive a payment of their accumulated sick. Clerical Bargaining Unit employees receive 10% of their accumulated sick. Police Bargaining Unit employees and Police Chief receive 20% if employed less than 11 years and 25% if employed more than 11 years.

Clerk-Treasurer receives a payment of accumulated sick leave. For this purpose, the maximum sick accrual eligible for payment is 840 hours. Payment would be 10% if employed 5 - 9 years and 25% over 10 years.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Eligible employees not covered by a collective bargaining agreement receive a payment of 10% of the accumulated unused sick leave who have been employed 5 – 9 years and 25% for those employed more than 10 years.

Payments are recognized as expenditures when paid. Those discharged for cause shall not be entitled to receive a payment of their accumulated sick leave.

F. Long-Term Debt

See Note 6, *Debt Service Requirements*.

G. 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 ordinance or resolution. 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 the following funds:

- **Street Fund;** receives State shared gas tax revenues, which are restricted by Washington State RCW. This fund also includes interfund loan proceeds. Loan funds were used to establish a cash flow for grant funded street projects. As of December 31, 2018, the reserved ending fund balance was \$6,273.79.
- **Building Code Account Fund;** restricted by Washington State RCW limiting use to only review or processing of building permits. As of December 31, 2018, the reserved ending fund balance was \$36,421.30.
- **Visitor Center Fund;** facility is supported by lodging tax funds, which are restricted by Washington State RCW. Revenues in this fund also includes proceeds from sale of Exhibit Hall building. As of December 31, 2018, the reserved ending fund balance was \$0.00.
- **Library Fund;** operations are funded from a voter-approved excess levy on property taxes. All proceeds support provision of library services. As of December 31, 2018, the reserved ending fund balance was \$40,629.62.
- **Criminal Justice Fund;** restricted by Washington State RCW to fund law enforcement functions. As of December 31, 2018, the reserved ending fund balance was \$11,432.43.
- **Local Criminal Justice Fund;** voter approved 1/10th of 1% sales and use tax to support law enforcement services. As of December 31, 2018, the reserved ending fund balance was \$52,062.84.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

- **CDBG Grant/Home Rehab Project Fund;** low/moderate income financing to provide health and safety related home repairs to qualified owner-occupied homeowners. Proceeds are restricted by grant requirements. As of December 31, 2018, the reserved ending fund balance was \$165,112.01.
- **DOT Spoil Site Fund;** proceeds from sale of dredge materials restricted by deed mandates. Other income includes grant proceeds which are restricted by the granting agency. As of December 31, 2018, the reserved ending fund balance was \$448.14.
- **Public Works Vehicle Replacement Fund;** restricted for purchase of capital vehicle or equipment needs for the Public Works Department. As of December 31, 2018, the reserved ending fund balance was \$26,749.88.
- **Drug Enforcement Fund;** restricted for law enforcement use only for drug enforcement. As of December 31, 2018, the reserved ending fund balance was \$3,148.40.
- **Low Income Housing Fund;** proceeds are derived from a portion of the document recording fees and are restricted by Washington State RCW. Funds are intended for programs assisting low income persons. As of December 31, 2018, the reserved ending fund balance was \$46,453.97.
- **Swimming Pool Construction Fund;** voter approved funding for construction of a community swimming pool (refer to Note 11, *Other Disclosures #4*). As of December 31, 2018, the reserved ending balance was \$114,185.56.
- **REET Capital Fund;** restricted by Washington State RCW to fund capital projects which are included on the City's Capital Facility Plan. As of December 31, 2018, the reserved ending balance was \$39,837.87.
- **Street Construction Capital Fund;** reserved due to grant funding restrictions specific to capital improvement projects included in this fund. As of December 31, 2017, the reserved ending fund balance was -\$338,006.12 (refer to Note 11, *Other Disclosures #2*).
- **Water Bond Reserve Fund, Sewer Bond Reserve Fund, Sewer Loan Reserve Fund and Short Lived Asset Reserve Fund;** these funds are required to be established as outlined in various loan documents relating to improvements of the Water Treatment and Wastewater Treatment Plant facilities. As of December 31, 2018, the reserved ending fund balance for each was \$66,828.00, \$217,041.31, \$11,543.00 and \$29,997.00, respectively.
- **Utility Deposit;** funds paid by utility customers. When the account is closed, the deposit is applied to the customer's outstanding balance, with the remaining refunded to the customer. As of December 31, 2018, the reserved ending fund balance was \$64,161.57.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

- **Transportation Benefit District and TBD Capital Projects Funds;** restricted by ordinance. Funds are to be used for preservation of transportation system needs. Funding is voter-approved additional sales and use tax specific to that use. As of December 31, 2018, the reserved ending fund balances for each was \$113,461.11 and \$3,456.17, respectively.

The governing body has not imposed any restrictions or commitments on any other fund balance.

H. Significant Budget Amendments

When expenses are incurred that are not reasonably foreseen at the time of filing the preliminary budget for 2018, budgetary amendments are required to allocate excess funds for specific purposes. Castle Rock City Council adopted Ordinance Nos. 2018-05, 2018-10, and 2018-11 amending the 2018 adopted budget for several funds. Listed below is a summary of the more significant budget amendments included in these ordinances:

<u>Ordinance No.</u>	<u>Fund</u>	<u>Reason</u>	<u>Funding</u>	<u>Budget Amendment</u>
2018-05	Regional Water	Powell Rd Overpass Water Main Repair	Maintenance & Operations	\$65,000
2018-10	DOT Spoils Site	Quantitative Assessment and Maintenance costs. Completion of Land Swap in early 2019 will provide sales of dredge spoils to resume.	Swimming Pool Construction Interfund Loan	\$16,000
2018-11	General	Additional planning services required to complete the update to the City's environmental/zoning code.	General Tax Revenue	\$20,000
2018-11	General	\$24,887 expensed in 2017 for Electronic Reader Board, but project completed in 2018 with additional expense.	General Tax Revenue	\$9,104
2018-11	Building Code	Building Permit Applications exceeded expectations; additional revenue & expense	Permit Fees	\$19,804
2018-11	Visitor Center	Interfund Transfer to Street Construction for installation of speaker system on Cowlitz St W	Sale of Exhibit Hall	\$13,000
2018-11	Visitor Center	Professional Services Agreement with Castle Rock Chamber of Commerce to operate the Visitor Center.	Sale of Exhibit Hall & Big Idea Funds from Cowlitz County	\$35,000

Note 2 – Budget Compliance

A. Budgets

The City adopts annual appropriated budgets for the general, special revenue, debt service, capital

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

project, enterprise and agency funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department 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			
Executive Department	\$77,715.00	\$74,907.40	\$2,807.60
Municipal Court Department	\$96,715.00	\$79,013.97	\$17,701.03
Finance Department	\$140,399.00	\$137,280.41	\$3,118.59
Police Department	\$948,534.00	\$908,936.37	\$39,597.63
Park Department	\$23,484.00	\$20,350.22	\$3,133.78
Planning Department	\$47,235.00	\$47,212.87	\$22.13
Non-Department	\$192,107.00	\$186,711.78	\$5,395.22
Total General Fund	\$1,526,189.00	\$1,454,413.02	\$71,775.98
Petty Cash/Change Fund	\$0.00	\$0.00	\$0.00
Street Fund	\$143,810.00	\$140,841.55	\$2,968.45
Building Code Account Fund	\$27,072.00	\$26,419.59	\$652.41
Visitor Center Fund	\$101,594.00	\$95,535.60	\$6,058.40
Library Fund	\$78,459.00	\$72,055.02	\$6,403.98
Criminal Justice Fund	\$4,667.00	\$617.46	\$4,049.54
Local Criminal Justice Fund	\$25,600.00	\$16,025.40	\$9,574.60
CDBG Grant Rehab Fund	\$1,000.00	\$0.00	\$1,000.00
DOT Spoil Site Fund	\$291,411.00	\$46,909.36	\$244,501.64
Public Works Vehicle Replacement Fund	\$20,000.00	\$0.00	\$20,000.00
Drug Enforcement Fund	\$200.00	\$0.00	\$200.00
Low Income Housing Fund	\$0.00	\$0.00	\$0.00
Swimming Pool Construction Fund	\$16,000.00	\$16,000.00	\$0.00
REET Capital Fund	\$35,600.00	\$35,600.00	\$0.00
Street Construction Capital Fund	\$2,282,225.00	\$740,648.02	\$1,541,576.98
Water Department Fund	\$910,236.00	\$887,874.40	\$22,361.60
Sewer Department Fund	\$895,715.00	\$887,323.46	\$8,391.54
Regional Water System Fund	\$775,759.00	\$755,208.21	\$20,550.79
Regional Sewer System Fund	\$663,953.00	\$676,888.62	(\$12,935.62)

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Stormwater Management Fund	\$171,143.00	\$168,352.39	\$2,790.61
Stormwater Capital Reserve Fund	\$48,000.00	\$33,257.10	\$14,742.90
Regional Water Capital Improvement Fund	\$94,650.00	\$86,861.32	\$7,788.68
Municipal Water Capital Improvement Fund	\$96,200.00	\$12,516.06	\$83,683.94
Water Bond Reserve Fund	\$0.00	\$0.00	\$0.00
Sewer Bond Reserve Fund	\$0.00	\$0.00	\$0.00
Sewer Loan Reserve Fund	\$0.00	\$0.00	\$0.00
Short Lived Asset Account Fund	\$0.00	\$0.00	\$0.00
Municipal Sewer Capital Improvement Fund	\$10,150.00	\$150.00	\$10,000.00
Boat Launch Facility Fund	\$186,368.00	\$17,982.24	\$168,385.76
Amy Thompson Library Trust Fund	\$0.00	\$0.00	\$0.00
Utility Deposit Fund	\$12,000.00	\$6,787.09	\$5,212.91
Transportation Benefit District Fund	\$124,500.00	\$74,116.38	\$50,383.62
Transportation Benefit District Capital Fund	\$0.00	\$0.00	\$0.00
Total All Funds	\$8,542,501.00	\$6,252,382.29	\$2,290,118.71

Variances include unexpended balances and budgeted ending fund balances. In addition, variances in the DOT Spoil Site Fund, Street Construction Capital Fund, and Boat Launch Facility Fund include a grant-funded projects which were not completed.

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.

For reporting purposes on Statement C-4, activities for the following funds have been combined as follows:

General Fund Totals:

General Fund	Petty Cash/Change Fund
Street Fund	Building Code Account Fund
Criminal Justice Fund	Local Criminal Justice Fund
Accumulative Reserve Fund	Drug Enforcement Fund

Stormwater Utilities Totals:

Stormwater Management Fund	Stormwater Capital Reserve Fund
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City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Utilities Fund Totals:

Public Works Vehicle Replacement Fund	Water Fund
Sewer Fund	Regional Water Fund
Regional Sewer Fund	Regional Water Capital Improvement Fund
Municipal Water Capital Improvement Fund	Water Bond Reserve Fund
Sewer Bond Reserve Fund	Sewer Loan Reserve Fund
Short Lived Asset Account Fund	Emergency Repair and Replacement Fund
Municipal Sewer Capital Improvement Fund	Utility Deposit Fund

The City manages funds for the Castle Rock City Transportation Benefit District. Included in those funds are the following:

Transportation Benefit District Fund	TBD Capital Project Fund
--------------------------------------	--------------------------

Note 3 – Deposits and Investments

The City did not have any investments. Interest and/or dividends earned on banked cash is receipted into the General Fund. Dividends earned for the Transportation Benefit District are receipted into the TBD Fund. All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

Note 4 - 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 2018 was \$2.596452 per \$1,000 on an assessed valuation of \$147,389,203 for a total regular levy of \$382,689.00.

In 2017, voters approved an excess levy to be assessed in 2018 for the purpose of supporting library services. The final levied amount was \$0.433640 per \$1,000 on an assessed valuation of \$144,140,146 for a total additional levy of \$62,505.00.

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2018:

Borrowing Fund	Lending Fund	Balance 1/1/2018	New Loans	Repayments	Balance 12/31/2018	Foot Note
DOT Spoil Site (original amount \$140,000)	Swimming Pool Construction	\$20,000	\$16,000	\$0.00	\$36,000	a.
Street Fund (approved amount \$85,000)	Swimming Pool Construction	\$28,334	\$0.00	\$28,334	\$0.00	b.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Borrowing Fund	Lending Fund	Balance 1/1/2018	New Loans	Repayments	Balance 12/31/2018	Foot Note
	Total Interfund Loans	\$48,334	\$16,000	\$28,334	\$36,000	

- a. Initial terms were a one-year loan, with an interest rate of 1.8% beginning February 1, 2010. Purpose of the loan was to provide equity for the DOT Spoil Site Fund to allow for reimbursable grant funded projects to proceed. Sale of dredge spoil material, which is the primary revenue source for this fund was suspended until resolution of the State/City land swap for the west side of the Cowlitz River. Loan repayment will be made when sales of material resume in 2019. Additional amount of \$16,000 borrowed in 2018 to assist with general expenses until land swap complete. Total loan balance, with an interest rate of 2.2% begins 12/18/18, payable within five years.
- b. Fiscal year 2015; City Council approved an interfund loan in the amount of \$85,000 from the Swimming Pool Construction Fund to the Street Fund to offset anticipated cash flow shortages when the City makes payment to Cowlitz County to resolve debt in the amount of \$300,000 from the County's ELF Fund. The interfund loan is to be repaid within three years, including interest at the current market rate as set by Washington State Investment Pool, with first loan payment due by February 2016. Loan fully repaid in 2018.

Note 6 – 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, 2018.

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

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$425,855.43	\$160,315.52	\$586,170.95
2020	\$383,569.28	\$154,309.73	\$537,879.01
2021	\$331,080.83	\$147,957.94	\$479,038.77
2022	\$266,044.54	\$141,815.96	\$407,860.50
2023	\$283,883.85	\$135,956.87	\$419,840.72
2024-2028	\$1,204,308.23	\$586,064.60	\$1,790,372.83
2029-2033	\$770,436.73	\$445,611.13	\$1,216,047.86
2034-2038	\$646,097.65	\$304,659.35	\$950,757.00
2039-2043	\$739,252.92	\$157,727.08	\$896,980.00
2044-2048	\$420,098.81	\$17,745.39	\$437,844.21
2049-2053	\$6,888.60	\$110.40	\$6,999.00
Totals	\$5,477,516.87	\$2,252,273.98	\$7,729,790.85

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Debt Refunding

The City did not issue any refunding bonds.

Debt Guarantees

In 2018, Castle Rock did not guarantee debt of other entities.

Note 7 – OPEB Plans

The City has a commitment to pay for postemployment benefits for employees who retired while participants of the State's LEOFF 1 retirement system. These benefits include medical, vision, nursing and long-term care. A total cost of \$16,856.95 was shared for two retirees, however, one retiree passed away in the beginning of the year.

January and February 2018 coverage was provided by AWC Employer Benefit Trust, 1076 Franklin St SE, Olympia, WA 98501. In March 2018, the City changed medical insurance providers, which made LEOFF 1 retirees ineligible for continuation of coverage through AWC Employee Benefit Trust. The City contracted with Gallagher Benefit Services, Inc., to administer LEOFF 1 medical benefits through Polestar (acquired by Infinisource in August 2018). Medical coverage provider was changed to Regence Blue Cross Blue Shield of Oregon, for supplemental Medicare coverage.

Note 8 – Health & Welfare

The City was a member of the Association of Washington Cities Employee Benefit Trust Health Care Program prior to 3/1/2018. On 3/1/2018, the City changed to the Oregon Teamsters Trust Plans (OTET) to provide healthcare to the City's employees. Healthcare coverage includes medical, dental and vision. The City retained the Life AD&D coverage through AWC.

Prior to 3/1/2018, the City of Castle Rock was a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust). 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, 2018, 257 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

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

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 2018, 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"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. 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.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Note 9 – Pension Plans

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 2, PERS 3 and LEOFF 2.

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

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

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

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

At June 30, 2018 (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	\$35,945	0.005378 %	\$240,183
PERS 2/3	\$52,972	0.006865 %	\$117,214
LEOFF 1	\$0.00	0.003338 %	\$60,601
LEOFF 2	\$21,772	0.012555 %	\$254,894

LEOFF Plan 1

The City no longer employs active LEOFF Plan 1 participants. However, the City still retains an obligation for health benefit costs for LEOFF Plan 1 retirees. The City has only one LEOFF Plan 1 retiree.

LEOFF Plan 2

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

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Note 10 – Risk Management

The City of Castle Rock is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2018, 100 municipalities/entities participate in the AWC RMSA pool.

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

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2018, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

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

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

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

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

Note 11 - Other Disclosures

1. Regional Utility System Agreement

As of an agreement dated March 31, 1976, the City of Castle Rock and Cowlitz County operate jointly, the Regional Water System. The Regional Water System provides water service to the City of Castle Rock and to outlying areas within the County. On December 22, 1999, a new agreement was signed between Cowlitz County and the City, which formed a Castle Rock/Toutle Regional Utility System (RUS). This agreement included provisions for the operation, construction and maintenance of both the Wastewater Treatment Plant and the Water Treatment Plant facilities and included definition of the service area and financial obligation to both the City and County entities. The RUS Board of Directors consists of two members from both the City and County and those members select the fifth member of the board. The RUS board members meet at least annually to review the budget and evaluate budgetary funding contributions for both entities. In December 2009, the City acquired the water and sewer infrastructure and customers located on the 'Westside' of the Cowlitz River, from Cowlitz County. As a result, Cowlitz County no longer has any customers where sewer service is provided.

The City of Castle Rock Public Works Department is responsible for the daily operation of the regional water treatment plant and the Finance Office is responsible for the maintenance of budgetary issues. Financial information is recorded in the City's Fund No. 410, Regional Water System Fund, and is included in this report. All real or personal property acquired by the entities prior to this agreement remains in the ownership of the jurisdiction in which the property is located.

2. Adopted Appropriations Exceeded

Street Construction Capital Fund ending fund balance as of December 31, 2018 denoted a deficit of \$338,006.12. This deficit is resolved on January 11, 2019 with a reimbursement in the amount of \$551,026.25 from FHWA (State of Washington Department of Transportation).

Regional Sewer System Fund exceeded adopted appropriations as of December 31, 2018 due to an unforeseen compensation payment to a previous employee, per a separation agreement signed in December 2018.

3. Fire District Agreement

In November 2005, voters approved an annexation of City fire and ambulance services into Cowlitz County Fire Protection District #6. On November 28, 2005, an Interlocal agreement between the City and Cowlitz County Fire District #6 was signed, outlining the pre- and post- annexation services, employee status and equipment/building ownership. This agreement also outlines post-annexation fire prevention services for a period of ten years after the effective date of annexation.

Two other Interlocal agreements between the City and Cowlitz County Fire District #6 were agreed and entered into as follows:

- An EMS cooperative agreement to allow Cowlitz County Fire District #6 to operate under the City's

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

emergency medical service licensing; if the district is not able to obtain licensing. Term of this agreement extended until Cowlitz County Fire District #6 received required licensing to operate an emergency ambulance service. Licensing was acquired in 2007.

- Infrastructure agreement to outline continued sharing costs for the telephone system, cable television service and the physical computer network system. In addition, the agreement allows Cowlitz County Fire District #6 use of a building for storage of equipment. This agreement may be terminated by providing at least a 30 day written notice in advance of the termination.

4. Voter Approved Swimming Pool Construction Funds

In 1986, voters approved a bond measure for issuing \$100,000 of general obligation bonds to be used, along with private trust fund monies, for the purpose of constructing a new municipal swimming pool facility. Both the bond principal and interest were paid out of annual levies in excess of regular property taxes maturing within a maximum term of two years. The general obligation bonds were paid off in 1989, however, the City was unable to construct the swimming pool facility before the private trust fund expired.

The City brought this issue before the voters in February 1994 for the purpose of reassigning this money to be used for reconstruction of arterial streets, with the capability of using these monies as matching funds for any future state or federal grants for the construction, remodel or improvement of arterial street projects. Unfortunately, this issue was defeated by a wide margin. The City Council then requested Cowlitz County Auditor and Cowlitz County Treasurer to advise of the feasibility of returning the monies to the tax payers. Cowlitz County determined that manpower costs will exceed any feasibility of returning the monies to the tax payers.

In 1995, public hearings were scheduled and an informal survey held to ascertain if the citizens wanted the \$100,000 returned to the tax payers, or if they wished to have it retained for its original intended use. Citizens participating in the public hearings advised the Council to retain the money for its intended use.

See Note 5 *Interfund Loans*, outlining repayment obligations to this fund.

5. Cowlitz County Regional Tourism Development Partnership Program

In October 2011, the City entered into an Interlocal agreement with Cowlitz County and the cities of Longview, Kelso, Kalama and Woodland to create and administer a partnership program to promote, acquire, construct or operate tourist related facilities and promotions for each of the participating entities. Annual financial contributions are required of each participating entity over a six-year period. Each participating entity will be entitled to receive proceeds from this 'pooled' contribution to support a program or project approved by the Regional Tourism Board of Directors. The City's annual contribution for fiscal years 2012 through 2017 is \$1,279 and will be funded by lodging tax revenues. The Interlocal Agreement was amended in 2014 to make each entity responsible for determining the use of those funds, with final approval from the Big Idea Board.

Funds for projects are rotated annually between participating agencies to be used for eligible projects.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

This sharing of lodging tax contributions provides those entities with \$67,676 to fund projects during their assigned project year. Projects must be approved by the individual entity and the Big Idea Board. In 2017, the City was eligible to submit projects for the Big Idea allocation. The City's primary project was to construct a new visitor center.

City Council reaffirmed the City's commitment to the continuation of the Big Idea Agreement at their December 18, 2017 Special Council meeting.

April 9, 2018, Castle Rock City Council entered into an Interlocal Agreement with Cowlitz County to receive a contribution in the amount of \$26,134 to support tourism, promotion and cost of operation of a Visitors Center in Castle Rock at Exit 49.

6. Castle Rock Chamber of Commerce – Management of Visitor Center

August 13, 2018, Castle Rock City Council entered into a professional services agreement with the Castle Rock Chamber of Commerce for the management of the Visitor Center. The Big Idea Funds received from the County in the amount of \$26,134 were transferred to the Chamber, in addition to \$8,866 from the sale of the exhibit hall building. These funds would cover wages for 2018. The agreement also provided for additional money from the sale of the exhibit hall in 2019. In 2020, the Castle Rock Chamber of Commerce and Visitor Center will be responsible for raising the money needed to fully fund the position and operations of the Visitor Center. The City remains responsible for the facility's maintenance.

7. State of Washington, Office of the Secretary of State, Washington State Library Division

April 9, 2018, Castle Rock City Council entered into an intergovernmental user agreement with the State of Washington, Office of the Secretary of State (OSOS), the Washington State Library Division. The purpose of the agreement is to join with other libraries as a consortium for the purpose of increasing buying power to enable the group to use the Koha system for individual benefit. The agreement is valid for three (3) years. The first two (2) years is fully funded by OSOS (\$650/year). The third (3rd) year is 50% paid by OSOS (\$325) and the remainder by the Library's Consortium share of the Contractor's contract (\$350).

8. State of Washington, Department of Revenue, Business Licensing Services

October 22, 2018, Castle Rock City Council approved an agreement with the State of Washington, Department of Revenue, Business Licensing Service. The transfer of the application process was completed, with a Go-Live date of May 9, 2019.

9. Formation of Transportation Benefit District

Castle Rock City Council formed the Castle Rock City Transportation Benefit District (CRTBD) in 2012 to provide adequate funding for ongoing transportation improvements that preserve, maintain and, as appropriate, construct or reconstruct the existing transportation infrastructure of the City, consistent with Chapter 36.73 RCW. In November 2012, voters approved an additional sales tax of 2/10th of 1% to fund the CRTBD. Proceeds from that sales tax were not received until 2013. In addition, the City entered into

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

an Interlocal Agreement with the CRTBD Board to provide staffing and related support including, but not limited to, legal, financial, planning and engineering services. Ownership of the infrastructure preserved and maintained by CRTBD funds are and shall remain the property of the City of Castle Rock. No joint ventures are included in this agreement.

10. Formation of Cowlitz 911 Public Authority (Cowlitz 911)

In 2017, Cowlitz governmental authorities researched alternatives to providing governance and provision of 9-1-1 emergency and non-emergency communications and dispatch services to the citizens within each jurisdiction. In January 2018, Castle Rock City Council passed Resolution No. 2018-01 in support of the establishment of the Cowlitz Public Safety Answering Point (PSAP) as an independent public authority. Cowlitz County Commissioners voted to move forward with creating a PSAP. A governance board, comprised of system users will be working to complete the transition by 2019.

11. Cowlitz-Wahkiakum Economic Development District

In February 2018, Castle Rock City Council passed Resolution No. 2018-03, in support of the creation of an Economic Development District to serve the needs of the Southwest Washington region, under direction of the Cowlitz-Wahkiakum Council of Governments. Councilmembers pledged willingness to provide financial support and actively serve on the governing board. This is a preliminary commitment, requiring additional regional and State approvals.

12. Cowlitz County / City of Castle Rock Interlocal Cooperation Act

In 2016, the City entered into an Interlocal Agreement with Cowlitz County, pursuant to the Interlocal Cooperation Act, Chapter 39.34 RCW, to provide administrative, or engineering services, construction and maintenance services as requested by the respective agency for a maximum dollar amount for the services not to exceed \$75,000 per calendar year.

13. Construction Commitment

The City has active construction projects as of December 31, 2018. The projects include:

Funding Note	Project Title	Funding	Spent to Date	Remaining Commitment
a.	Exit 49 Pedestrian Improvement Phase 2 Project	\$315,938	\$304,099	\$11,839
b.	Dougherty Dr Reclamation Phase 1 & 2 Project	\$1,581,421	\$113,554	\$1,467,861
c.	Six Rivers Regional Trail System (Exit 49 Phase 3)	\$367,750	\$0.00	\$367,750
d.	Complete Streets (ADA Ramps/RFT Phase 3)	\$200,000	\$0.00	\$200,000
e.	Huntington Ave S Overlay Project	\$940,289	\$673,763	\$266,526
f.	Boat Launch Safety Improvement – Design	\$165,000	\$0.00	\$165,000

Funding:

- a. Exit 49 Pedestrian Improvement Phase 2 Project: Bids released in 2019 with work scheduled to begin in February with project completion by June 2019. Funding includes two WSDOT Transportation Alternative Grants \$225,938 and \$40,000, \$50,000 from Cowlitz County Rural Development, with an

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

additional in reserve of \$36,507.

- b. Dougherty Dr Reclamation Phase 1 & 2 Project: Funding includes TIB grant \$918,119, WSDOT STP Grant \$473,996, Cowlitz County Rural Development \$133,306, City Regional Water Fund \$56,000, with additional funding to be determined, from the City Stormwater Fund. Design started in 2018 and is continuing into 2019. Secured an additional \$473,996 from WSDOT STP in early 2019. Anticipate bid process in June 2019, with construction beginning in August and completing in December 2019.
- c. Six Rivers Regional Trail System (Exit 49 Phase 3): Funding includes WSDOT Transportation Alternative Grant \$299,750, Cowlitz County Trail \$68,000. The purpose of this project is to connect the northern end to the southern end of Cowlitz County through a system of trails and streets to be used by pedestrians and bicycles. Funds will be used for improvements on the I-5 Exit 49 overpass and an analysis of safety improvements.
- d. Complete Streets (ADA Ramps/RFT Phase 3): Funding includes TIB grant \$200,000. Funds safety improvements for pedestrians and bicycles crossing I-5 Exit 49 southbound ramp. Also connects path to the existing trail system. An estimated 27 ADA ramps within city limits needing to be updated to meet current ADA requirements are also funded with this grant.
- e. Huntington Ave S Overlay Project – Funded by a State Transportation Program grant (federal funds) in the amount of \$823,393, and a TIB grant for the federal match in the amount of \$116,896, for engineering and construction costs. Minimal items remain; stormwater, striping & cleanup. Project is anticipated to be completed by June, 2019.
- f. Boat Launch Safety Improvement – Design: Funding includes Recreation and Conservation Office \$123,000, Cowlitz County Rural Development \$42,000, for the design of river current calming structures. Design phase is expected to be completed in 2020. Secured 75% of the construction funding needed in 2019. Project completion is anticipated by January 2022.

14. Issuance of New Debt

City Council approved the following additional new debt:

- March 26, 2018, Castle Rock City Council approved an Interlocal Agreement with Cowlitz County to provide partial funding assistance for the Huntington Ave S Overlay Project and the Dougherty Drive NE Full Reclamation Project. Funding is 50% loan and 50% grant; total amount of \$261,813. Terms of the loan are: \$130,906 principal sum, at an interest rate of 1.5% per annum for a term of ten (10) years. County financial assistance is from Rural County Public Facilities Fund.
- December 21, 2018, Castle Rock City Council approved participating in the State of Washington LOCAL Loan Program in the amount of \$65,000, for a purchase of a new police vehicle. Term of the loan is 5 years at an interest rate of 2.07006%. The loan will be used in 2019 to reimburse expenses for the 2020 Ford Police Interceptor Utility/SUV AWD, plus associated equipment; resulting in a final principal amount of \$59,974.15.

City of Castle Rock
Notes to Financial Statements
January 1, 2018 through December 31, 2018

15. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of either transfers-in or transfers-out between funds or contributions to capital, enterprise or internal service funds to establish or reduce working capital in other funds. Interfund transfers include the following:

From Fund	To Fund	Amount
General Fund	Current/General Expense Fund	\$25,810
REET Fund	Current/General Expense Fund	\$35,600
Stormwater Utility Funds	Stormwater Utility Funds	\$45,000
Stormwater Utility Funds	Utility Operating Funds	\$3,000
Visitor Center Fund	Current/General Expense Fund	\$10,000
Visitor Center Fund	DOT Spoils Site Fund	\$14,000
Visitor Center Fund	Street Capital Fund	\$13,000
Water-Sewer Utility Funds	Utility Operating Funds	\$179,849
	Total	\$326,259

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Castle Rock, Washington was incorporated on June 20, 1890 and operates under the laws of the state of Washington applicable to a non-charter Code City. The city is a general purpose local government and provides public safety, street improvement, parks, library, recreation and general administrative services. The city owns a water system and operates a water treatment plant in a joint venture with Cowlitz County. In addition, the City also owns and operates a sewer system and sewage treatment plant.

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

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The City adopts annual appropriated budgets for the general, special revenue, debt service, capital project, enterprise and agency funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Executive Department	\$73,968.00	\$72,316.49	\$1,651.51
Municipal Court Department	\$111,524.00	\$110,852.74	\$671.26
Finance Department	\$131,463.00	\$128,086.88	\$3,376.12
Police Department	\$966,330.00	\$937,707.60	\$28,622.40
Park Department	\$14,400.00	\$7,785.76	\$6,614.24
Planning Department	\$51,584.00	\$50,516.57	\$1,067.43
Non-Department	\$213,191.00	\$215,289.00	(\$2,098.00)
Petty Cash/Change Fund	\$0.00	\$0.00	\$0.00
Street Fund	\$173,548.00	\$164,059.48	\$9,488.52
Building Code Acct Fund	\$36,750.00	\$34,809.78	\$1,940.22
Visitor Center Fund	\$92,637.00	\$90,345.51	\$2,291.49
Library Fund	\$88,070.00	\$61,261.50	\$26,808.50
Criminal Justice Fund	\$1,667.00	\$1,084.81	\$582.19
Local Criminal Justice Fund	\$79,500.00	\$43,272.66	\$36,227.34
CDBG Grant Rehab Fund	\$0.00	\$0.00	\$0.00
DOT Spoil Site Fund	\$284,937.00	\$26,375.83	\$258,561.17

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Public Wks Vehicle Replacement	\$72,527.00	\$72,526.06	\$0.94
Drug Enforcement Fund	\$0.00	\$0.00	\$0.00
Low Income Housing Fund	\$0.00	\$0.00	\$0.00
Swimming Pool Construction Fund	\$0.00	\$0.00	\$0.00
REET Capital Fund	\$12,000.00	\$12,000.00	\$0.00
Street Construction Capital Fund	\$51,960.00	\$49,579.18	\$2,380.82
Water Department Fund	\$889,732.00	\$889,729.63	\$2.37
Sewer Department Fund	\$907,061.00	\$895,407.85	\$11,653.15
Regional Water System Fund	\$582,139.00	\$572,471.71	\$9,667.29
Regional Sewer System Fund	\$649,075.00	\$624,822.84	\$24,252.16
Stormwater Management Fund	\$132,220.00	\$126,009.53	\$6,210.47
Stormwater Capital Reserve Fund	\$57,000.00	\$17,783.66	\$39,216.34
Regional Water Capital Improvement Fund	\$70,200.00	\$14,884.52	\$55,315.48

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Municipal Water Capital Improvement	\$165,000.00	\$78,616.36	\$86,383.64
Water Bond Reserve	\$0.00	\$0.00	\$0.00
Sewer Bond Reserve	\$0.00	\$0.00	\$0.00
Sewer Loan Reserve Fund	\$0.00	\$0.00	\$0.00
Short Lived Asset Account Fund	\$0.00	\$0.00	\$0.00
Municipal Sewer Capital Improvement Fund	\$15,200.00	\$80.00	\$15,120.00
Boat Launch Facility	\$41,766.00	\$36,393.62	\$5,372.38
Amy Thompson Library Trust	\$0.00	\$0.00	\$0.00
Utility Deposit	\$8,000.00	\$6,141.16	\$1,858.84
Transportation Benefit District	\$113,263.00	\$101,289.71	\$11,973.29
TBD Capital Fund	\$0.00	\$0.00	\$0.00
TOTAL OF ALL FUNDS:	\$6,086,712.00	\$5,441,500.44	\$645,211.56

Variances include unexpended balances and budgeted ending fund balances. In addition, variances in the Street Construction Fund and Street Fund also include grant-funded projects which were not completed.

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

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city's legislative body.

For reporting purposes on Statement C-4, activities for the following funds have been included within General Fund totals; General Fund, Petty Cash/Change Fund, Street, Building Code Account Fund, Criminal Justice Fund, Local Criminal Justice Fund, Accumulative Reserve Fund, and Drug Enforcement Fund. Stormwater utilities include the Stormwater Fund and the Stormwater Capital Reserve Fund. The following funds are reported within the Utilities Fund; Public Works Vehicle Replacement Fund, Water Fund, Sewer Fund, Regional Water Fund, Regional Sewer Fund, Regional Water Capital Improvement Fund, Municipal Water Capital Improvement Fund, Water Bond Reserve Fund, Sewer Bond Reserve Fund, Sewer Loan Reserve, Short Lived Asset Account Fund, Emergency Repair and Replacement, Municipal Sewer Capital Improvement Fund, and Utility Deposit Fund. The city manages funds for the Castle Rock City Transportation Benefit District. Included in those funds are the Transportation Benefit District Fund and TBD Capital Project Fund. All other funds are reported separately.

D. Cash and Investments

See Note 2 *Deposits and Investments*.

E. Capital Assets

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

F. Compensated Absences

Vacation leave may be accumulated as outlined below:

Accruals	Supervisory/ Non-bargainng	Police Bargaining unit	Clerical Bargaining unit	Public Works Bargaining unit
Vacation	280 hours	280 hours	240 hours	240 hours

Bargaining unit employees cannot exceed the maximum accrual hours, without obtaining prior written approval from the department supervisor or mayor. Additional approved time must be used down to the maximum hours within ninety days of the signed approval unless special provisions are authorized by the mayor. Public Works and Clerical bargaining units require any vacation hours accrued in excess of the 240 hour accrual limit (and not having obtained written approval for the overage) to be paid at the employee's regular rate of pay in the month following accrual of the excess hours. Supervisory staff and eligible non-bargaining employees may exceed allowable accruals, upon written approval by the mayor. For all eligible employees; vacation accruals are payable upon separation or retirement.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

Sick leave may be accumulated as outlined below:

Accruals	Supervisory/ Non-bargaining	Police Bargaining unit	Clerical Bargaining unit	Public Works Bargaining unit
Sick	840 hours	720 hours	720 hours	840 hours

The police bargaining employees accumulating over 720 hours of sick leave shall exchange all additional accumulated sick leave for pay at the rate of fifty-percent (4 hours at regular rate of pay) on the month immediately following any month where accrual limit is exceeded.

Upon separation or retirement public works employees do not receive payment (buyout) for unused sick leave. Clerical and police bargaining unit employees receive a buyout of their accumulated sick. Clerical buyout, upon separation is at the rate of 10% of the employee's accumulated sick leave. For police the buyout is 20% of the accumulated sick leave (for employees with less than eleven years of employment) and 25% of the accumulated sick leave (for employees with more than eleven years of employment). Qualified employees not covered by a collective bargaining agreement receive a buyout of 10% of the accumulated unused sick leave (for service of at least five years to nine years); and those with 10 years or more of service receive 25% of their unused sick leave. Payments are recognized as expenditures when paid. Those discharged for cause shall not be entitled to receive a buyout of their accumulated sick leave.

As of January, 2018 the State of Washington adopted legislation for paid sick leave, as amended in RCW 49.46. This expands sick leave accrual to include part-time employees. The Police Collective Bargaining Agreement effective January 2018 to December 2020 includes a buyout of sick leave at fiscal year end for accrual over the allowable amount. In 2019, Clerical and Public Works Collective Bargaining Agreements will be amended to reflect this new legislation.

G. Long-Term Debt

See Note 5, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of either transfers-in or transfers-out between funds or contributions to capital, enterprise or internal service funds to establish or reduce working capital in other funds. Interfund transfers include the following:

From	To:	Amount:
Visitor Center Fund	Current/General Expense	\$ 8,500.00
General Fund	Current/General Expense	\$ 34,310.00
Street Fund	Utility Operating Funds	\$ 3,000.00
REET Fund	Current/General Expense	\$ 12,000.00
Water-Sewer Utility Funds	Utility Operating Funds	\$231,199.00
Stormwater Utility Funds	Utility Operating Funds	\$ 3,000.00
Stormwater Utility Funds	Stormwater Utility Funds	<u>\$ 19,000.00</u>
Total:		\$311,009.00

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

I. Significant Budget Amendment/s

When expenses are incurred that are not reasonably foreseen at the time of filing the preliminary budget for 2017, budgetary amendments are required to allocate excess funds for specific purposes. Castle Rock City Council adopted Ordinance No. 2017-10 amending the 2017 adopted budget for several funds. Listed below is a summary of the more significant budget amendments included in this ordinance:

- Cowlitz County Jail costs required additional appropriation of \$15,754
- Police Department received an AWC RMSA Loss Control Grant in the amount of \$5,000 to purchase a portable video surveillance system.
- Condition of sale of Exhibit Hall building required removal and contamination clean-up of an old buried fuel tank; cost of \$11,621. Cost was recovered through city's insurance carrier.
- Purchase of two electronic message boards in the amount of \$47,409 for the equipment. Funded by a \$10,000 contribution from Castle Rock Community Development Alliance, \$10,000 re-appropriation of Cowlitz County Rural Development Funds and proceeds from the Exhibit Hall building sale.
- Additional planning services required to update the city's ordinance regarding marijuana regulations to bring in compliance with recent State law changes; \$22,960
- Washington State Department of Transportation contribution to provide additional fencing and landscape improvements at the Park And Ride; cost of \$20,037
- Purchase of a Kubota Skidsteer (\$57,196) and generator (\$15,330) using Public Works Vehicle Replacement funds.
- Additional work required for the SR504 Pedestrian Path, funded by an additional contribution of \$10,000 from Washington State Department of Transportation.
- Additional work required for the Trenchless Sewer Repair Project which resulted in an amendment to the contracted total; additional \$54,775. Washington State Department of Transportation contributed to the additional impact created by the flows from the Toutle River Rest Stop.
- Powell Road Overpass water main line break. City has submitted a claim through their liability insurance carrier to pay for the engineering expenses incurred in 2017; amount of \$2,069. Full repair cost is unknown at this time.

J. 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 ordinance or resolution. 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 the following funds:

Utility Deposit: funds paid by utility customers. When account is closed, the deposit is applied to the customer's outstanding balance, with the remaining refunded to the customer. As of December 31, 2017 the reserved ending fund balance was \$62,708.66

CDBG Grant/Home Rehab Project Fund: low/moderate income financing to provide health and safety related home repairs to qualified owner-occupied homeowners. Proceeds are restricted

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

by grant requirements. As of December 31, 2017 the reserved ending fund balance was \$165,112.01.

DOT Spoil Site Fund: proceeds from sale of dredge materials restricted by deed mandates. Other income includes grant proceeds which are restricted by the granting agency. As of December 31, 2017 the reserved ending fund balance was \$8,868.18

Street Fund receives State shared gas tax revenues, which are restricted by Washington State RCW. This fund also includes interfund loan proceeds. Loan funds were used to establish a cash flow for grant funded street projects. As of December 31, 2017 the reserved ending fund balance was \$411.52.

Building Code Account Fund; restricted by Washington State RCW limiting use to only review or processing of building permits. As of December 31, 2017 the reserved ending fund balance was \$14,914.33.

Low Income Housing Fund; proceeds are derived from a portion of the document recording fee and are restricted by Washington State RCW. Funds are intended to for programs assisting low income persons. As of December 31, 2017 the reserved ending fund balance was \$43,453.97.

Visitor Center facility is supported by lodging tax funds, which are restricted by Washington State RCW. Revenues in this fund also proceeds from sale of the Exhibit Hall building. As of December 31, 2017 the reserved ending fund balance was \$0.

Library Fund; operations are funded from a voter-approved excess levy on property taxes. All proceeds support provision of library services. As of December 31, 2017 the reserved ending fund balance was \$45,251.39.

Street Construction Capital Fund; reserved due to grant funding restrictions specific to capital improvement projects included in this fund. As of December 31, 2017 the reserved ending fund balance was \$11,317.37.

Water Bond Reserve Fund, Sewer Bond Reserve Fund, Sewer Loan Reserve Fund and Short Lived Asset Reserve Fund: these funds are required to be established as outlined in various loan documents relating to improvements to the Water Treatment and Wastewater Treatment Plant facilities. As of December 31, 2017 the reserved ending fund balance for each respective fund was \$60,452; \$199,200.31; \$9,894; and \$26,664.

Swimming Pool Construction Fund: voter approved funding for construction of a community swimming pool (refer to Note 7, #3). As of December 31, 2017 the reserved ending fund balance was \$100,651.12.

Criminal Justice Fund; restricted by Washington State RCW to fund law enforcement functions. As of December 31, 2017 the reserved ending fund balance was \$8,744.13.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

REET Capital Fund; restricted by Washington State RCW to fund capital projects which are included on the city's Capital Facility Plan. As of December 31, 2017 the reserved ending fund balance was \$49,407.19.

Local Criminal Justice Fund; voter approved 1/10th of 1% sales and use tax to support law enforcement services. As of December 31, 2017 the reserved ending fund balance was \$28,322.55.

Drug Enforcement Fund; restricted for law enforcement use only for drug enforcement. As of December 31, 2017 the reserved ending fund balance was \$3,148.40.

Public Works Vehicle Replacement Fund; restricted for purchase of capital vehicle or equipment needs for the Public Works Department. As of December 31, 2017 the reserved ending fund balance was \$11,749.88.

Transportation Benefit District and TBD Capital Project Funds; restricted by ordinance. Funds are to be used for preservation of transportation system needs. Funding is voter-approved additional sales and use tax specific to that use. As of December 31, 2017 the reserved ending fund balances for each was \$84,578.18 and \$3,456.17 respectively.

The governing body has not imposed any restrictions or commitments on any other fund balance.

NOTE 2 – DEPOSITS AND INVESTMENTS

The City did not have any investments. Interest and/or dividends earned on banked cash is receipted into the General Fund. Dividends earned for the Transportation Benefit District are receipted into the TBD Fund. All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

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 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 \$2.958918 per \$1,000 on an assessed valuation of \$127,349,987 for a total regular levy of \$376,818.18.

In 2016 voters approved an excess levy to be assessed in 2017 for the purpose of supporting library services. The final levied amount was \$0.497508 per \$1,000 on an assessed valuation of \$125,008,984 for a total additional levy of \$62,193.00.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

NOTE 4 - INTERFUND LOANS

The following table displays interfund loan activity during 2017:

Borrowing Fund	Lending Fund	Balance as of 1/1/2017	New Loans	Repayments	Balance
DOT Spoil Site (original amt: \$140,000)	Swimming Pool Construction	\$20,000	\$0	\$0	\$20,000
Street Fund (approved amt: \$103,000)	Sewer Bond Reserve Fund	\$7,000	\$0	\$7,000	\$0
Street Fund	Swimming Pool Construction	\$56,667	\$0	\$28,333	\$28,334
Total Interfund Loans:		\$83,667	\$0	\$35,333	\$48,334

#1: Initial terms were a one-year loan, with an interest rate of 1.8% beginning February 1, 2010. Purpose of the loan was to provide equity for the DOT Spoil Site Fund to allow for reimbursable grant funded projects to proceed. Sale of dredge spoil material, which is the primary revenue source for this fund was suspended until resolution of the State/city land swap for the west side of the Cowlitz River. Loan repayment will be made when sales of material resume.

#2: Loan to the Street Fund was approved at \$103,000, to provide for contingency funds during construction projects. The Street Fund only borrowed \$20,000. Term requires interest to be paid at the rate established for investments from the Washington State Investment Pool, for a term of two-years. Payment due January 2017.

#3: Fiscal year 2015; city council approved an interfund loan in the amount of \$85,000 from the Swimming Pool Construction Fund to the Street Fund to offset anticipated cash flow shortages when the city makes payment to Cowlitz County to resolve debt in the amount of \$300,000 from the county's ELF fund. The interfund loan is to be repaid within three years, including interest at the current market rate as set by Washington State Investment Pool, with first loan payment due by February 2016.

NOTE 5 – DEBT SERVICE REQUIREMENTS

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 the year ended December 31, 2017.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

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

	Principal	Interest	Total
2018	\$403,534.60	\$169,112.28	\$572,646.88
2019	\$407,336.52	\$161,204.01	\$568,540.53
2020	\$386,730.20	\$154,129.79	\$540,859.99
2021	\$317,695.55	\$147,148.48	\$464,844.03
2022	\$252,442.55	\$141,223.21	\$393,665.76
2023-2027	\$1,252,086.55	\$617,341.16	\$1,869,427.71
2028-2032	\$762,797.44	\$478,130.19	\$1,240,927.63
2033-2037	\$689,994.76	\$335,649.32	\$1,025,644.08
2038-2042	\$707,388.41	\$189,591.59	\$896,980.00
2043-2047	\$445,220.26	\$35,640.52	\$480,860.78
2048-2052	<u>\$19,840.30</u>	<u>\$ 690.29</u>	<u>\$20,530.59</u>
TOTALS	<u>\$5,645,067.14</u>	<u>\$2,429,860.84</u>	<u>\$8,074,927.98</u>

NOTE 6 - PENSION PLANS

A. State Sponsored Pension Plans

Substantially all city full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans Public Employee Retirement System (PERS 2 and PERS 3) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF 2).

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
PO Box 48380
Olympia, WA 98504-8380

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

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

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

	Allocation %	Liability (Asset)
PERS 1 UAAL	.005389%	\$255,712
PERS 2/3	.006931%	\$240,819
LEOFF 1	.003877%	(\$58,823)
LEOFF 2	.014442%	(\$148,435)

LEOFF Plan 1

The city no longer employs active LEOFF I participants. However the city still retains an obligation for health benefit costs for LEOFF I retirees. The city has only one LEOFF I retiree. The LEOFF I Plan is fully funded.

LEOFF Plan 2

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

NOTE 7 – RISK MANAGEMENT

1. Liability

The City of Castle Rock is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2017, 99 municipalities/entities participate in the AWC RMSA pool.

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

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2017, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

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

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

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

2. Health and Welfare

The City of Castle Rock 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.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

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.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

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.

As of March, 2018 the city terminated their medical, dental and vision coverage with AWC Employee Benefit Trust; but retained Life AD&D coverage. Coverage for medical, dental and vision is now obtained through Teamsters Employers Trust.

NOTE 8 - OTHER DISCLOSURES

(1). OPEB

The City has a commitment to pay for post-employment benefits for employees who retired while participants of the State's LEOFF 1 retirement system. These benefits include medical, vision, nursing and long-term care. Two retirees received benefits during the year at a cost of \$30,191.53. GASB 43/45 Compliance Report for the AWC Employer Benefit Trust is available through AWC Employee Benefit Trust, 1076 Franklin Street SE, Olympia, WA 98501.

March, 2018 the city changed medical insurance providers, which made LEOFF I retirees ineligible for continuation of coverage through AWC Employee Benefit Trust. The city contracted with Gallagher Benefits Services, Inc to administer LEOFF I medical benefits through Polestar. Medical coverage provider was changed to Regence Blue Shield of Oregon, for supplemental Medicare coverage.

(2). ADOPTED APPROPRIATIONS EXCEEDED

- Non-Department Fund within the General (current expense) Fund, exceeded the allowable appropriations at year-end by \$2,098. This overage was not anticipated prior to processing December, 2017 year-end invoices.

(3) ISSUANCE OF NEW DEBT

City council approved the following additional new debt:

March, 2018 Castle Rock City Council approved an Interlocal Agreement with Cowlitz County to provide partial funding assistance for the Huntington Avenue South Overlay project and the Dougherty Drive NE Reclamation project. Funding is 50% loan and 50% grant; total amount of \$261,813. Terms of the loan are: \$130,906 principal sum, at an interest rate of 1.5% per annum for a term of ten (10) years. County financial assistance is from Rural County Public Facilities funds.

March 2016, Rural Community Assistance Corporation amended the loan agreement to reflect a new repayment schedule. The interest rate will remain at 5%, with the loan amortized over 111 months. This loan funded improvements to the Regional Water Treatment Plant filter system.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

(4) REGIONAL UTILITY SYSTEM AGREEMENT

As of an agreement dated March 31, 1976, the City of Castle Rock and Cowlitz County operate jointly the Regional Water System. The Regional Water System provides water service to the City of Castle Rock and to outlying areas within the county. On December 22, 1999, a new agreement was signed between Cowlitz County and the city, which formed a Castle Rock/Toutle Regional Utility Systems (RUS). This agreement included provisions for the operation, construction and maintenance of both the Wastewater Treatment Plant and the Water Treatment Plant facilities and included definition of the service area and financial obligation to both the city and county entities. The RUS board of directors consists of two members from both the city and county and those members select the fifth member of the board. The RUS board members meet at least annually to review the budget and evaluate budgetary funding contributions for both entities. December, 2009 the city acquired from Cowlitz County the water and sewer infrastructure and customers located on the 'Westside' of the Cowlitz River. As a result, Cowlitz County no longer has any customers where sewer service is provided.

The City of Castle Rock Public Works Department is responsible for the daily operation of the regional water treatment plant and the city finance office is responsible for the maintenance of budgetary issues.

Financial information is recorded in the city's Fund No. 410 Regional Water System and is included in this report. All real or personal property acquired by the entities prior to this agreement remains in the ownership of the jurisdiction in which the property is located.

In this current fiscal year, Cowlitz County contributed \$243,523 and the City of Castle Rock \$364,275.

(5). FIRE DISTRICT AGREEMENT

November, 2005 voters approved annexation of city fire and ambulance services into Cowlitz County Fire Protection District #6. November 28, 2005 an interlocal agreement between the city and Fire District #6 was signed outlining pre and post annexation services, employee status and equipment/building ownership. This agreement also outlines post-annexation fire prevention services for a period of ten years after effective date of annexation.

Two other interlocal agreements between the city and Fire District #6 were entered into as follows:

- An EMS cooperative agreement to allow Cowlitz Fire Protection District #6 to operate under the city's emergency medical service licensing; if the district is not able to obtain licensing. Term of this agreement extended until District #6 received required licensing to operate an emergency ambulance service. Licensing was acquired in 2007.
- Infrastructure agreement to outline continued sharing costs for the telephone system, cable television service and the physical computer network system. In addition, the agreement allows Cowlitz Fire District #6 use of a building for storage of equipment. This agreement may be terminated by providing at least a 30 day written notice in advance of the termination.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

(6). VOTER APPROVED SWIMMING POOL CONSTRUCTION FUNDS

In 1986, voters approved a bond measure for issuing \$100,000 of general obligation bonds to be used, along with private trust fund monies, for the purpose of constructing a new municipal swimming pool facility. Both the bond principal and interest were paid out of annual levies in excess of regular property taxes maturing within a maximum term of two years. The general obligation bonds were paid off in 1989, however the city was unable to construct the swimming pool facility before the private trust fund expired.

The city brought this issue before the voters in February 1994 for the purpose of reassigning this money to be used for reconstruction of arterial streets, with the capability of using these monies as matching funds for any future state or federal grants for the construction, remodel or improvement of arterial street projects. Unfortunately, this issue was defeated by a wide margin. The City Council then requested Cowlitz County Auditor and Cowlitz County Treasurer to advise of the feasibility of returning the monies to the tax payers. Cowlitz County determined that manpower costs will exceed any feasibility of returning the monies to the tax payers.

In 1995, public hearings were scheduled and an informal survey held to ascertain if the citizens wanted the \$100,000 returned to the taxpayer, or if they wished to have it retained for its original intended use. Citizens participating in the public hearings advised the council to retain the money for its intended use.

See Note #4 Interfund Loans outlining repayment obligations to this fund.

(7). COWLITZ COUNTY REGIONAL TOURISM DEVELOPMENT PARTNERSHIP PROGRAM.

October 2011, the city entered into an Interlocal Agreement with Cowlitz County and the cities of Longview, Kelso, Kalama and Woodland to create and administer a partnership program to promote, acquire, construct or operate tourist related facilities and promotions for each of the participating entities. Annual financial contributions are required of each participating entity over a six-year period. Each participating entity will be entitled to receive proceeds from this 'pooled' contribution to support a program or project approved by the Regional Tourism Board of Directors. The city's annual contribution for fiscal year 2012 through 2017 is \$1,279 and will be funded by Lodging tax revenues. The interlocal agreement was amended in 2014 to make each entity responsible for determining the use of those funds, with final approval from the Big Idea board.

Funds for projects are rotated annually between participating agencies to be used for eligible projects. This sharing of lodging tax contributions provides those entities with \$67,676 to fund projects during their assigned project year. Projects must be approved by the individual entity and the Big Idea Board. In 2017, the city was eligible to submit projects for the Big Idea allocation. The city's primary project was construction of a new visitor center.

City Council reaffirmed the city's commitment to continuation of the Big Idea Agreement at their December 18, 2017 Special Council meeting.

(8). FORMATION OF TRANSPORTATION BENEFIT DISTRICT

Castle Rock City Council formed the Castle Rock City Transportation Benefit District (CRTBD) in 2012

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

to provide adequate funding for ongoing transportation improvements that preserve, maintain and, as appropriate, construct or reconstruct the existing transportation infrastructure of the city, consistent with Chapter 36.73 RCW. November 2012 voters approved an additional sales tax of 2/10th of 1% to fund the CRTBD. Proceeds from that sales tax were not received until 2013. In addition, the City entered into an Interlocal Agreement with CRTBD Board to provide staffing and related support including, but not limited to, legal, financial, planning and engineering services. Ownership of the infrastructure preserved and maintained by CRTBD funds are and shall remain the property of the City of Castle Rock. No joint ventures are included in this agreement.

(9). FORMATION OF COWLITZ 911 PUBLIC AUTHORITY (Cowlitz 911)

In 2017, Cowlitz governmental authorities researched alternatives to providing governance and provision of 9-1-1 emergency and non-emergency communications and dispatch services to citizens within each jurisdiction. January, 2018 Castle Rock City Council passed Resolution No. 2018-01 in support of establishment of Cowlitz Public Safety Answering Point (PSAP) as an independent public authority. Cowlitz County Commissioners voted to move forward with creating a PSAP. A governance board, comprised of system users will be working to complete the transition by 2019.

(10). COWLITZ-WAHKIAKUM ECONOMIC DEVELOPMENT DISTRICT

February, 2018, Castle Rock City Council adopted Resolution No. 2018-03, in support of the creation of an Economic Development District to serve the needs of the Southwest Washington region, under direction of Cowlitz-Wahkiakum Council of Governments. Councilmembers pledged willingness to provide financial support and actively serve on the governing board. This is a preliminary commitment, requiring additional regional and State approvals.

(11) COWLITZ COUNTY/CITY OF CASTLE ROCK INTERLOCAL COOPERATION ACT

In 2016, the city entered into an interlocal agreement with Cowlitz County pursuant to the Interlocal Cooperation Act, chapter 39.34 RCW to provide administrative, or engineering services, construction and maintenance services as requested by the respective agency for a maximum dollar amount for the services not to exceed \$75,000 per calendar year.

(12) CONSTRUCTION COMMITMENT

The city has active construction projects as of December 31, 2017. The projects include:

Project Name:	Spent To Date:	Remaining Commitment
State Route 504/Exit 49 Pedestrian Improvement Project; Dougherty Drive to 300' of Salmon Creek Lane NE	\$567,504	Project completed in 2017 (a)

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

Project Name:	Spent To Date:	Remaining Commitment
Huntington Avenue Overlay Project	\$2393 for preliminary engineering. Estimated cost: \$951,900	Project will extend from Front Avenue South intersection to Bond Road. (b)
Dougherty Drive NE Reclamation Project	\$0 Estimated cost: \$1,051,425	Project will include complete reconstruction of road, installation of sidewalks and safety improvements. (c)
Boat Launch –Phase II	\$555,237	\$58,000 (d)
Trenchless Sewer Repair Project – Residential areas	\$122,757	Project extended into 2017 due to issues with retrofitting several sewer mains. Estimated total project cost is \$103,000 (e)

Funding:

a. Funded by a TIB grant in the amount of \$255,646, city matching funds of \$13,456 and a Federal Highway program grant in the amount of \$263,200. Additional funding: Cowlitz County Parks \$30,000, Cowlitz County Rural Development grant for Wi-Fi services \$12,000, and approximately \$7,000 in contributions from several utility providers (ComCast, Qwest and Cascade Natural Gas). Project proposal includes ADA compliant ramps, multi-use path along both sides of SR504. Initial bids were rejected due to inadequate funding. Engineer amended the bid document and bids were re-solicited in 2016. Reductions to the scope of the project included elimination of the pedestrian crossing, illumination upgrades and landscaping. Project was not accepted as complete until 2017 due to issues regarding ADA signage, which were resolved.

b. Funded by a State Transportation Program grant (federal funds) in the amount of \$823,393, with a required local match of \$128,507 for engineering and construction costs. In 2018, Cowlitz County provided combined grant/loan funding for the local match. Engineering to begin in 2018, with construction completed in 2018.

c. Funded by a Transportation Improvement Board Small Cities Arterial Program (SCAP) grant (federal funds) in the amount of \$734,919, with a required local match of \$128,507 for engineering and construction costs. And a Transportation Improvement Board Small City Preservation Program (SCPP) grant in the amount of \$183,200, with a required local match of \$9,675. In 2018, Cowlitz County provided combined grant/loan funding for the local match. Engineering to begin in 2018, with construction completed in 2019.

d. Funded through a grant from Washington State Recreation Conservation Organization grant, contribution from the Port of Longview and Cowlitz County Rural Development funds. Construction was completed in 2012. Additional funding will be required to complete environmental studies required by Federal agencies. The city continues to seek additional funding sources.

CITY OF CASTLE ROCK
NOTES TO FINANCIAL STATEMENTS JANUARY
1, 2017 THROUGH DECEMBER 31, 2017

e. Funded through a USDA Rural Development Revenue Bond. Project included several improvements to sewer mains within the residential areas. Washington State Department of Transportation (WSDOT) contributed additional funds to replace a portion of the Huntington Avenue North sewer main line, which WSDOT uses to transport waste from the Toutle River Rest Stop facility. Project completed in 2017.

**City of Castle Rock
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.85	Cowlitz County Rural Facilities Loan	1/31/2020	10,463	-	5,205	5,258
251.11	USDA RDA Limited Tax, 2015	9/25/2035	293,691	-	18,595	275,096
263.96	State of WA; LOCAL Program	6/1/2019	41,759	-	18,452	23,307
263.85	Cowlitz County Rural Facilities Loan 2	11/30/2028	-	130,907	-	130,907
Total General Obligation Debt/Liabilities:			345,913	130,907	42,252	434,568
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	USDA RDA Revenue Bond, 2009	1/1/2049	265,718	-	4,740	260,978
252.11	USDA RDA Revenue Bond, 2015, Series B	9/25/2035	143,740	-	8,855	134,885
252.11	USDA RDA Revenue Bond, 2005, Series B	1/1/2045	556,151	-	10,556	545,595
252.11	USDA RDA Revenue Bond, 2015, Series A	9/25/2035	61,133	-	4,163	56,970
252.11	USDA RDA Revenue Bond, 2005, Series A	1/1/2045	2,037,823	-	38,676	1,999,147
263.88	PWB Loan PW-05-691-008	7/1/2025	193,052	-	24,132	168,920
263.88	PWTF Loan PW-01-691-010	7/1/2021	278,535	-	69,634	208,901
263.88	PWTF Loan PW-00-691-012	7/1/2020	118,608	-	39,535	79,073
263.88	PWB Loan PC-13-961-041	6/1/2032	364,103	-	24,274	339,829
263.84	DWSRF Loan 06-96300-003	10/1/2027	954,185	-	93,660	860,525
263.84	DWSRF Loan 99-651-99-012	10/1/2020	101,097	-	35,970	65,127
263.92	Rural Community Assistance Corp 6218-CCR-01A	12/31/2025	127,580	-	12,660	114,920
259.12	Vacation Accrual Liability		87,498	62,244	74,671	75,071
259.12	Compensatory Accrual Liability		21,416	29,996	29,499	21,913
259.12	Sick Leave Accrual Liability		34,632	10,695	5,778	39,549
264.30	Net Pension Liabilities		496,531	-	139,134	357,397
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,841,802	102,936	615,937	5,328,801
Total Liabilities:			6,187,715	233,843	658,189	5,763,369

**City of Castle Rock
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.85	Cowlitz County Rural Facilities Loan	1/31/2020	15,616	-	5,153	10,463
251.11	USDA RDA Limited Tax, 2015	9/25/2035	311,652	-	17,961	293,691
263.96	State of WA; LOCAL Program	6/1/2019	52,635	2,889	13,765	41,759
Total General Obligation Debt/Liabilities:			379,903	2,889	36,879	345,913
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	USDA RDA Revenue Bond, 2009	1/1/2049	270,296	-	4,578	265,718
252.11	USDA RDA Revenue Bond, 2015, Series B	9/25/2035	152,356	-	8,616	143,740
252.11	USDA RDA Revenue Bond, 2005, Series B	1/1/2045	566,247	-	10,096	556,151
252.11	USDA RDA Revenue Bond, 2015, Series A	9/25/2035	65,184	-	4,051	61,133
252.11	USDA RDA Revenue Bond, 2005, Series A	1/1/2045	2,074,816	-	36,993	2,037,823
263.88	PWB Loan# PW-05-691-008	7/1/2025	217,183	-	24,131	193,052
263.88	PWTF Loan #PW-01-691-010	7/1/2021	348,169	-	69,634	278,535
263.88	PWTF Loan #PW-00-691-012	7/1/2020	158,143	-	39,535	118,608
263.88	PWB Loan# PC 13-961-041	6/1/2032	388,376	-	24,273	364,103
263.84	DWSRF Loan# 06-96300-003	10/1/2027	1,049,604	-	95,419	954,185
263.84	DWSRF Loan# 99-651-99-012	10/1/2020	134,795	-	33,698	101,097
263.92	Rural Community Assistance Corp #6218-CCR-01A	12/31/2025	138,643	-	11,063	127,580
259.12	Vacation Accrual Liability		102,731	92,103	107,336	87,498
259.12	Compensatory Accrual Liability		20,514	23,828	22,926	21,416
259.12	Sick Leave Accrual Liability		22,830	11,802	-	34,632
264.30	Net Pension Liabilities		607,733	-	111,202	496,531
Total Revenue and Other (non G.O.) Debt/Liabilities:			6,317,620	127,733	603,551	5,841,802
Total Liabilities:			6,697,523	130,622	640,430	6,187,715

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
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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov