



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Shelton

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

Published October 28, 2019

Report No. 1024871





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

October 28, 2019

Mayor and City Council
City of Shelton
Shelton, Washington

Report on Financial Statements

Please find attached our report on the City of Shelton'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 style.

Pat McCarthy
State Auditor
Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Shelton January 1, 2018 through December 31, 2018

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2017-December 31, 2017	Report Ref. No.: 1022942	Finding Ref. No.: 2017-001
Finding Caption: The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate reporting.		
Background: The prior audit identified the following deficiencies in internal controls that, when taken together, represent a material weakness: <ul style="list-style-type: none"> Historical monitoring and reconciling of accounts lapsed with the turnover of finance directors, and new controls were not established. These missing controls included a lack of review of journal entries, general ledger accounts after adjustments, and bank reconciliations for accuracy. Persons preparing and reviewing financial statements did not have sufficient experience with the transactions for that period to identify errors and missing disclosures. 		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input checked="" type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>The City has made corrections to the processes of bank rec. We have completed the work with Key Bank to move payroll deductions to the main checking account.</i> <i>The City has hired a finance director. The bank rec has been assigned to the accounting manager.</i>		

Audit Period: January 1, 2016-December 31, 2016	Report Ref. No.: 1022941	Finding Ref. No.: 2016-001
Finding Caption: The City's internal controls over accounting and financial statement preparation were inadequate to ensure accurate reporting.		
Background: The prior audit identified the following deficiencies in internal controls that, when taken together, represent a material weakness: <ul style="list-style-type: none"> • Historical monitoring and reconciling of accounts lapsed with the turnover of finance directors, and new controls were not established. These missing controls included a lack of review of journal entries, general ledger accounts after adjustments, and bank reconciliations for accuracy. • Persons preparing and reviewing financial statements did not have sufficient experience with the transactions for that period to identify errors and missing disclosures. 		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The City has made corrections to the processes of bank rec. We have completed the work with Key Bank to move payroll deductions to the main checking account.</i> <i>The City hired a finance director. The bank rec has been assigned to the accounting manager.</i>		

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

**City of Shelton
January 1, 2018 through December 31, 2018**

Mayor and City Council
City of Shelton
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Shelton, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 22, 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 audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's

internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated October 22, 2019.

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 22, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Shelton January 1, 2018 through December 31, 2018

Mayor and City Council
City of Shelton
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Shelton, for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 12.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Shelton 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 Shelton, and its changes in cash and investments, for the year ended December 31, 2018, 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 Shelton, as of December 31, 2018, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 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.



Pat McCarthy

State Auditor

Olympia, WA

October 22, 2019

FINANCIAL SECTION

City of Shelton January 1, 2018 through December 31, 2018

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018

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

		Total for All Funds (Memo Only)	001 General	108 Tourism
Beginning Cash and Investments				
30810	Reserved	3,136,076	819,603	106,725
30880	Unreserved	10,376,643	2,857,162	-
388 / 588	Prior Period Adjustments, Net	(0)	-	-
Revenues				
310	Taxes	8,326,554	8,028,059	44,499
320	Licenses and Permits	604,883	604,883	-
330	Intergovernmental Revenues	3,810,845	1,019,583	-
340	Charges for Goods and Services	10,982,407	1,277,513	-
350	Fines and Penalties	121,122	121,122	-
360	Miscellaneous Revenues	529,497	186,496	-
Total Revenues:		24,375,308	11,237,655	44,499
Expenditures				
510	General Government	4,910,418	4,706,968	-
520	Public Safety	4,829,453	4,829,453	-
530	Utilities	3,351,670	-	-
540	Transportation	1,173,669	844,045	-
550	Natural and Economic Environment	523,754	523,754	-
560	Social Services	3,394	3,394	-
570	Culture and Recreation	477,985	444,935	33,050
Total Expenditures:		15,270,343	11,352,549	33,050
Excess (Deficiency) Revenues over Expenditures:		9,104,965	(114,894)	11,449
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	1,181,592	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	138	93	-
381, 395, 398	Other Resources	151,295	73,729	-
Total Other Increases in Fund Resources:		1,333,025	73,822	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	8,902,960	426,495	-
591-593, 599	Debt Service	3,204,396	21,920	-
597	Transfers-Out	1,326,956	1,269,085	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	65	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		13,434,377	1,717,501	-
Increase (Decrease) in Cash and Investments:		(2,996,387)	(1,758,573)	11,449
Ending Cash and Investments				
5081000	Reserved	2,147,673	324,878	118,174
5088000	Unreserved	8,368,660	1,593,314	-
Total Ending Cash and Investments		10,516,333	1,918,192	118,174

The accompanying notes are an integral part of this statement.

201 Bond	302 Capital Improvement	401 Water	402 Sewer	403 Solid Waste	404 Stormwater
3,841	693,828	275,901	1,120,913	-	-
-	-	1,670,362	2,507,702	1,214,375	892,194
-	1,143	-	-	-	(1,143)
6,797	247,199	-	-	-	-
-	-	-	-	-	-
1,137	1,399,725	-	1,319,352	61,409	9,640
-	731,942	2,199,230	5,310,745	1,359	767,079
-	-	-	-	-	-
-	-	119,876	209,218	56	11,527
7,934	2,378,865	2,319,106	6,839,316	62,824	788,245
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,100,250	1,636,649	296,245	318,524
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,100,250	1,636,649	296,245	318,524
7,934	2,378,866	1,218,856	5,202,666	(233,421)	469,722
-	-	-	-	-	-
274,868	730,000	-	-	9,147	-
-	-	-	-	-	-
-	-	-	-	45	-
-	71,000	801	3,109	1,012	962
274,868	801,000	801	3,109	10,204	962
-	3,801,457	90,732	3,902,375	-	555,817
274,868	-	459,277	2,448,331	-	-
-	48,724	-	-	-	-
-	-	-	-	-	-
-	-	-	-	65	-
-	-	-	-	-	-
274,868	3,850,181	550,009	6,350,705	65	555,817
7,934	(670,315)	669,648	(1,144,930)	(223,282)	(85,133)
11,775	24,655	275,901	1,275,603	-	-
-	-	2,340,010	1,208,083	991,093	805,917
11,775	24,655	2,615,911	2,483,686	991,093	805,917

502 Payroll Benefits	503 Equipment Rental	707 Library Endowment
-	-	115,265
122,804	1,112,044	-
-	-	-
-	-	-
-	-	-
-	-	-
39,548	654,992	-
-	-	-
624	278	1,422
40,172	655,270	1,422
203,450	-	-
-	-	-
-	-	-
-	329,624	-
-	-	-
-	-	-
-	-	-
203,450	329,624	-
(163,278)	325,646	1,422
-	-	-
167,577	-	-
-	-	-
-	-	-
-	682	-
167,577	682	-
-	126,085	-
-	-	-
-	9,147	-
-	-	-
-	-	-
-	-	-
-	-	-
-	135,232	-
4,299	191,096	1,422
-	-	116,687
127,103	1,303,140	-
127,103	1,303,140	116,687

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

		Total for All Funds (Memo Only)	Pension Trust	Agency
308	Beginning Cash and Investments	829,758	465,272	364,486
388 & 588	Prior Period Adjustment, Net	(112,076)	-	(112,076)
310-390	Additions	1,645,157	146,478	1,498,679
510-590	Deductions	1,410,486	79,886	1,330,600
Net Increase (Decrease) in Cash and Investments:		234,671	66,591	168,079
508	Ending Cash and Investments	952,354	531,864	420,490

The accompanying notes are an integral part of this statement.

City of Shelton
Notes to the Financial Statements
For the year ended December 31, 2018

Note 1 - Summary of Significant Accounting Policies

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

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

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.

Debt Service Funds

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

Capital Projects Funds

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

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Pension (and Other Employee Benefit) Trust Funds

These funds are used to report fiduciary activities for pension and OPEB plans administered through trust.

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

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

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	13,631,812	13,070,049	561,763
Tourism	66,875	33,050	33,825
Bond	274,868	274,868	-
Capital Improvement	5,597,467	3,850,181	1,747,286
Water	2,249,750	1,650,259	599,491
Sewer	11,186,722	7,987,354	3,199,368
Solid Waste	292,709	296,310	(3,601)
Storm Drainage	1,195,499	874,341	321,158
Payroll Benefits	238,589	203,450	35,139
EM&R	821,095	464,856	356,239
Firemen's Pension	112,249	79,886	32,363
Shelton Metropolitan Park District	380,839	315,270	65,569
Library Endowment	900	-	900

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

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

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

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 \$2,500 and an estimated useful life in excess of 2 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

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

Vacation pay for all employees may be accumulated up to two years accrual, and is payable upon resignation, retirement or death.

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

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

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by 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:

Projects and Programs	\$	349,533
Tourism Promotion/Operations		118,174
Debt Service		1,563,279
Library Endowment		116,687
	\$	<u>2,147,673</u>

Note 2 – Deposits and Investments

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

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

Investments are reported at fair value. Investments by type at December 31, 2018, are as follows:

Type of Investment	Investments held by City as an agent for other local governments, individuals or private organizations			Total
	City's Own Investments			
LGIP	\$ 8,426,947	\$ -	\$ -	\$ 8,426,947
US Securities	300,000	-	-	300,000
Money Market	2	-	-	2
Certificate of Deposits	206,870	-	-	206,870
	<u>\$ 8,933,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,933,819</u>

Note 3 - Property Tax

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

PROPERTY TAX CALENDAR

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

Property 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 may levy up to \$3.08 per \$1,000 of assessed valuation for general governmental services. The city is also authorized to levy up to \$.45 per \$1,000 of assessed valuation for the firemen's pension fund. (See Note #5) This levy is subject to the same limitations as the levy for general government services.

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

For 2018, the City of Shelton levied the following property taxes on an assessed value of \$652,529,064. (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

<u>Purpose of Levy</u>	<u>Levy Rate per \$1,000</u>	<u>Total Levy Amount</u>
General Government	\$ 3.0759473	\$ 2,007,145
Special - Emergency Medical Services	0.4785228	312,250
		<u>\$ 2,319,395</u>

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2018.

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

	Principle	Interest	Total
2019 \$	1,901,759	\$ 998,983	\$ 2,900,742
2020	1,831,919	967,275	2,799,194
2021	1,857,671	937,676	2,795,347
2022	1,884,033	907,316	2,791,349
2023	1,911,025	875,982	2,787,007
2024-2028	8,896,428	3,876,163	12,772,591
2029-2033	5,830,996	3,008,333	8,839,329
2034-2038	4,710,047	2,330,036	7,040,083
2039-2043	4,837,803	1,716,937	6,554,740
2044-2048	5,522,489	1,032,251	6,554,740
2049-2053	4,406,369	267,910	4,674,279
2054	124,970	2,210	127,180
Totals	\$ 43,715,509	\$ 16,921,072	\$ 60,636,581

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City of Shelton’s full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (PERS 1, 2/3, PSERS 2 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 (assets), as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 195,113	0.029620%	\$1,322,839
PERS 2/3	\$ 284,035	0.035391%	\$ 604,270
PSER 2	\$ 31,754	0.013463%	\$ 167
LEOFF 1	\$ -	0.018666%	(\$ 338,882)
LEOFF 2	\$ 82,658	0.046103%	(\$ 935,991)

LEOFF Plan 1

The City also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

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.

B. Local Government Pension Plans

The City is the administrator of the Firemen's Pension plan, a closed, single-employer, defined benefit pension plan established under RCW 14.18. As of December 31, 2018, membership consisted of 3 individuals, 1 retiree and 2 beneficiaries and the net pension liability was \$30,457 as reported on the Schedule 09.

Note 6 - OPEB

The LEOFF 1 Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City as required by RCW chapter 41.26. The plan pays 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. Members are provided necessary healthcare expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source. There were 9 retirees receiving benefits during 2018 and \$217,997 was paid out for those benefits during the year.

Note 7 – Risk Management

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

Unemployment

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

Sick Leave Buy Back and Retired Police Medical

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

for payment.

Washington Cities Insurance Authority

The city is exposed to various risks of loss such as natural disasters, property damage, liability, employee dishonesty, errors and omissions, and personal injury. The City of Shelton is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 160 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

For the last three years there were no settlements that exceeded insurance coverage.

Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP)

The City 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, 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 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.

Note 8 - Other Disclosures

Contingency:

- The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. During 2017, a litigation event related to the C Street landfill was completed. Remedial investigation work by the Department of Ecology (DOE) related to the litigation matter began in 2016. Expenditures for 2016 were \$41,597; 2017 were \$228,144, and 2018 were \$153,743. Currently, remedial investigation is 70% complete with anticipated completion date in late 2019. The estimated cost from DOE is \$816,926 to finish the remedial investigation action plan and closeout, which is expected to be completed by 2023. DOE originally committed to \$286,667 to the City, but has since amended the agreement to commit a total of \$815,000 for assessment, remedial investigations, feasibility study, grant and project administration, engineering design and cleanup construction.

Related Parties:

- The Shelton Metropolitan Park District (SMPD) was formed by a special election certified on May 12, 2010 under the authority of RCW 35.61. Its sole purpose is to provide improved park and recreation services within the City of Shelton boundaries which are funded by a property tax imposed by the district. The seven-member Shelton City council, as the ex officio Park Board Commissioners, govern the SMPD. The entire tax revenues reported in the SMPD are transferred from the general fund. Further, the SMPD expenses are paid to the general fund to reimburse for eligible park district expenditures.
- Mason County Emergency Communications (MACECOM) was established on January 1, 2009 by an interlocal agreement, pursuant to chapter 39.34 RCW, between Mason County, the City of Shelton, Squaxin Island Tribal Police, the Skokomish Indian Tribe and Mason County Fire Protection Districts 1, 2, 3, 4, 5, 6, 8, 9, 11, 12, 13, 16, 17, and 18. MACECOM provides communication and dispatching for public safety and emergencies in those participating incorporated and unincorporated areas of Mason County.

MACECOM has two boards, the legislative board and the governing board, consisting of elected and appointed officials of each member agency or group of member agencies as listed above.

MACECOM also has entered into a lease agreement with the City of Shelton to lease space at the Civic Center for their operations.

Construction Commitments:

- The City has active construction projects as of December 31, 2018. The projects include the following:
 - Basin 3 Sewer Rehabilitation Project, construction commitment of \$6.34 million. Expenditures for 2017 were \$26,387 and 2018 were \$3.27 million. This project is expected to be fully funded by three WA State Department of Commerce grants totaling \$4.37 million and one from WA State Department of Ecology totaling \$1.97 million. This project is expected to be completed in 2019.
 - Downtown Connector Project, construction commitment of \$4.49 million. Expenditures for 2018 were \$3.44 million. This project is expected to be funded by two grants, one from Transportation Improvement Board for \$3.49 million and one from WA State Department of Transportation in the amount of \$1 million. This project is expected to be completed in 2019.
 - Shelton Timberland Library Repair-Stabilization and Replacement Project, construction commitment of \$279,360. Expenditures for 2018 were \$5,138. This project is expected to be fully funded by WA State Department of Commerce grant totaling \$279,360. This project is expected to be completed by 2021.

Corrections:

- A prior period adjustment was processed to make a correction of \$170,000 investment sale that did not get redistributed from Treasurer's Trust fund at 12/31/2017.
- A prior period adjustment was processed to make a correction of \$57,924 that was incorrectly posted in 2017 to the Treasurer's Trust fund and moved to warrants payable.
- A prior period adjustment was processed from the Stormwater fund to the Capital Improvement fund to correct an expenditure entry of \$1,143 in 2017.

City of Shelton
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						
251.11	General Obligation Bonds, 2011A,Public Safety Bldg/Fire Station Project (LTGO-USDA)	10/12/2051	2,595,272	-	38,781	2,556,491
251.11	General Obligation Bonds, 2011B,Public Safety Bldg/Fire Station Project (LTGO-USDA)	10/12/2051	931,507	-	13,922	917,585
251.11	LTGO Refunding Bonds, 2013,Civic Center Bldg. (LTGO) (Refunded 1999 LTGO Bonds)	12/1/2019	180,000	-	85,000	95,000
263.96	Lease/Purchase Agreement,ST-LOCAL-2013 Civic Center Energy Efficiency - Heating/Cooling Equip	12/1/2023	111,436	-	16,330	95,106
263.81	Due to Other Governmental Units,#PC08-951-041 Regional Satellite Plant Project-Construction	6/1/2028	1,207,184	-	109,744	1,097,440
Total General Obligation Debt/Liabilities:			5,025,399	-	263,777	4,761,622
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	Revenue Bonds, 2013,Water Improvements (Angleside Booster Pump Station & Upper Mt View Impr)	12/1/2032	2,665,000	-	140,000	2,525,000
252.11	Revenue Bonds, 2014,Sewer - Basin 5 Improvements Project (USDA)	8/21/2054	3,200,980	-	54,862	3,146,118
252.11	Revenue Bonds, 2012A,Sewer - WWTP Improvements Project (USDA)	2/9/2052	4,241,653	-	61,779	4,179,874
252.11	Revenue Bonds, 2012B ARRA,Sewer - WWTP Improvements Project (USDA)	2/9/2052	4,547,200	-	88,483	4,458,717
252.11	Revenue Bonds, 2012C ARRA,Sewer - WWTP Improvements Project (USDA)	2/9/2052	5,456,640	-	106,180	5,350,460
252.11	Revenue Bonds, 2012D ARRA,Sewer - WWTP Improvements Project (USDA)	2/9/2052	8,529,630	-	165,978	8,363,652
252.11	Revenue Refunding Bonds, 2013,Sewer Improvements (Refunded 1999 Revenue Bonds)	12/1/2018	50,000	-	50,000	-
263.82	Due to Other Governmental Units,#PW-98-791-054 Sewer Basin 1-Construction	7/1/2018	165,236	-	165,236	-
263.82	Due to Other Governmental Units,#PW-04-691-060 Sewer Basin 2-Construction	7/1/2024	1,344,573	-	192,082	1,152,491
263.82	Due to Other Governmental Units,#PR-08-951-099 WWTP Improvements-Design (B)	6/1/2028	504,810	-	45,892	458,918
263.82	Due to Other Governmental Units,#PR-09-951-017 WWTP Improvements-Design (C)	6/1/2029	88,421	-	7,368	81,053
263.82	Due to Other Governmental Units,#PC-08-951-040 Sewer Basin 5-Construction	7/1/2028	3,552,728	-	322,975	3,229,753
263.82	Due to Other Governmental Units,ST-Revolving Fund Loan #L0200016 - WWTP Digester Expansion	4/30/2024	320,063	-	49,240	270,823

263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L0800003 - Goldsborough Creek Sewer Improvements A-Construction	9/16/2030	1,304,240	-	100,326	1,203,914
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L1000002 - Goldsborough Creek Sewer Improvements B-Construction	9/23/2030	483,758	-	31,093	452,665
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L0800005 - Sewer Basin 5 Rehab Design	3/31/2031	712,871	-	43,202	669,669
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L0800004 - WWTP Improvements Design	8/26/2029	981,753	-	68,611	913,142
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L1200003 - Sewer Basin 3 Rehab Design	3/31/2033	412,783	-	19,567	393,216
263.82	Due to Other Governmental Units, Dept of Commerce loan Water UMVPZ Const I	10/1/2037	2,215,181	-	110,759	2,104,422
259.12	Compensated Absences,Governmental & Internal Service		362,665	-	26,180	336,485
259.12	Compensated Absences,Proprietary		103,219	-	1,010	102,209
263.22	C Street Landfill		816,926	-	153,743	663,183
264.40	Net Pension Liability - Firemen Pension		102,132	-	71,675	30,457
264.30	Net Pension Liability		2,694,683	-	767,407	1,927,276
Total Revenue and Other (non G.O.) Debt/Liabilities:			44,857,145	-	2,843,648	42,013,497
Total Liabilities:			49,882,544	-	3,107,425	46,775,119

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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