



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## City of Shelton

For the period January 1, 2020 through December 31, 2021

*Published January 9, 2023*

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

January 9, 2023

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

### 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, 2020 through December 31, 2021**

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 years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 3, 2023.

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 state law 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.

## **REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

January 3, 2023

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **City of Shelton January 1, 2020 through December 31, 2021**

Mayor and City Council  
City of Shelton  
Shelton, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the City of Shelton, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

### **Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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 years ended December 31, 2021 and 2020, on the basis of accounting described in Note 1.

### **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, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

## **Basis for Unmodified and Adverse Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

## **Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

## **Responsibilities of Management 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 state law and the BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and



*Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Supplementary Information**

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. 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 January 3, 2023 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

January 3, 2023

## **FINANCIAL SECTION**

### **City of Shelton January 1, 2020 through December 31, 2021**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2021  
Fund Resources and Uses Arising from Cash Transactions – 2020  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2021  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2020  
Notes to the Financial Statements – 2021  
Notes to the Financial Statements – 2020

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2021  
Schedule of Liabilities – 2020

**City of Shelton**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2021**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>101 Street</b>
<b>Beginning Cash and Investments</b>				
308	Beginning Cash and Investments	17,085,402	6,012,560	1,005,320
388 / 588	Net Adjustments	-	(160,334)	(776,658)
<b>Revenues</b>				
310	Taxes	10,498,416	9,364,546	687,474
320	Licenses and Permits	297,389	281,260	16,129
330	Intergovernmental Revenues	2,568,998	2,241,543	211,320
340	Charges for Goods and Services	11,997,271	935,356	55,149
350	Fines and Penalties	78,452	78,452	-
360	Miscellaneous Revenues	205,906	135,438	1,304
Total Revenues:		25,646,432	13,036,595	971,376
<b>Expenditures</b>				
510	General Government	2,201,710	2,150,271	-
520	Public Safety	5,491,818	5,491,818	-
530	Utilities	6,450,712	-	-
540	Transportation	1,757,685	-	1,323,175
550	Natural/Economic Environment	519,364	519,364	-
560	Social Services	3,091	3,091	-
570	Culture and Recreation	669,696	609,393	-
Total Expenditures:		17,094,076	8,773,937	1,323,175
Excess (Deficiency) Revenues over Expenditures:		8,552,356	4,262,658	(351,799)
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	4,447,924	-	1,354,026
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	12,467	7,166	-
Total Other Increases in Fund Resources:		4,460,391	7,166	1,354,026
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	1,882,374	90,921	-
591-593, 599	Debt Service	2,751,581	21,680	-
597	Transfers-Out	4,447,924	3,579,876	807,474
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	47,578	-	-
Total Other Decreases in Fund Resources:		9,129,457	3,692,477	807,474
<b>Increase (Decrease) in Cash and Investments:</b>		<b>3,883,290</b>	<b>577,347</b>	<b>194,753</b>
<b>Ending Cash and Investments</b>				
50821	Nonspendable	100,000	-	-
50831	Restricted	6,204,402	1,335,278	-
50841	Committed	-	-	-
50851	Assigned	9,569,995	-	423,415
50891	Unassigned	5,094,295	5,094,295	-
<b>Total Ending Cash and Investments</b>		<b>20,968,692</b>	<b>6,429,573</b>	<b>423,415</b>

*The accompanying notes are an integral part of this statement.*

<b>103 Capital Resource REET 1</b>	<b>104 Capital Resource REET 2</b>	<b>105 Capital Resource TBD</b>	<b>106 Capital Resource TIF</b>	<b>108 Tourism</b>	<b>201 Bond</b>
-	-	-	-	93,406	7,420
72,477	67,509	550,306	722,470	-	-
194,874	194,874	-	-	56,450	198
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	7,471	-	-
-	-	-	-	-	-
55	57	279	175	67	-
194,929	194,931	279	7,646	56,517	198
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	60,303	-
-	-	-	-	60,303	-
194,929	194,931	279	7,646	(3,786)	198
-	-	-	-	-	-
135,170	133,313	766,437	267,321	-	179,036
-	-	-	-	-	-
-	-	-	-	-	-
135,170	133,313	766,437	267,321	-	179,036
-	-	-	-	-	-
-	-	-	-	-	179,036
46,549	-	14,025	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
46,549	-	14,025	-	-	179,036
<b>283,550</b>	<b>328,244</b>	<b>752,691</b>	<b>274,967</b>	<b>(3,786)</b>	<b>198</b>
-	-	-	-	-	-
356,027	395,753	1,302,997	997,437	89,620	-
-	-	-	-	-	-
-	-	-	-	-	7,618
-	-	-	-	-	-
<b>356,027</b>	<b>395,753</b>	<b>1,302,997</b>	<b>997,437</b>	<b>89,620</b>	<b>7,618</b>

*The accompanying notes are an integral part of this statement.*

<b>302 Capital Improvement</b>	<b>401 Water</b>	<b>402 Sewer</b>	<b>403 Solid Waste</b>	<b>404 Storm</b>	<b>502 Payroll Benefits</b>
433,300	2,542,648	4,558,464	1,017,457	380,739	148,596
(475,770)	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,006	2,940	13,403	17,767	75,935	-
-	2,912,341	6,593,937	23	860,939	42,904
-	-	-	-	-	-
-	35,409	23,692	769	287	277
6,006	2,950,690	6,631,032	18,559	937,161	43,181
-	-	-	-	-	51,439
-	-	-	-	-	-
-	2,080,514	3,460,232	20,290	889,676	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,080,514	3,460,232	20,290	889,676	51,439
6,006	870,176	3,170,800	(1,731)	47,485	(8,258)
-	-	-	-	-	-
1,585,307	-	-	-	-	27,314
-	-	-	-	-	-
-	1,060	1,060	-	-	-
1,585,307	1,060	1,060	-	-	27,314
659,511	225,018	560,233	212	10,576	-
-	373,226	2,177,639	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
9,618	18,980	18,980	-	-	-
669,129	617,224	2,756,852	212	10,576	-
<b>922,184</b>	<b>254,012</b>	<b>415,008</b>	<b>(1,943)</b>	<b>36,909</b>	<b>19,056</b>
-	-	-	-	-	-
-	275,901	1,451,389	-	-	-
-	-	-	-	-	-
879,714	2,520,759	3,522,083	1,015,514	417,648	167,652
-	-	-	-	-	-
<b>879,714</b>	<b>2,796,660</b>	<b>4,973,472</b>	<b>1,015,514</b>	<b>417,648</b>	<b>167,652</b>

The accompanying notes are an integral part of this statement.

<b>503 Equipment Rental</b>	<b>707 Library Endowment</b>
763,922	121,570
-	-
-	-
-	-
84	-
589,151	-
-	-
7,569	528
<u>596,804</u>	<u>528</u>
-	-
-	-
-	-
434,510	-
-	-
-	-
-	-
<u>434,510</u>	<u>-</u>
<u>162,294</u>	<u>528</u>
-	-
-	-
-	-
3,181	-
<u>3,181</u>	<u>-</u>
335,903	-
-	-
-	-
-	-
-	-
<u>335,903</u>	<u>-</u>
<u>(170,428)</u>	<u>528</u>
-	100,000
-	-
-	-
593,494	22,098
-	-
<u>593,494</u>	<u>122,098</u>

*The accompanying notes are an integral part of this statement.*

**City of Shelton**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>101 Street</b>
<b>Beginning Cash and Investments</b>				
308	Beginning Cash and Investments	14,305,296	3,299,523	1,355,194
388 / 588	Net Adjustments	-	-	-
<b>Revenues</b>				
310	Taxes	9,777,412	9,082,015	651,203
320	Licenses and Permits	349,695	344,355	5,340
330	Intergovernmental Revenues	2,557,092	1,182,406	220,010
340	Charges for Goods and Services	10,685,054	917,381	49,740
350	Fines and Penalties	85,071	85,071	-
360	Miscellaneous Revenues	367,528	164,820	7,736
Total Revenues:		23,821,852	11,776,048	934,029
<b>Expenditures</b>				
510	General Government	2,490,403	2,426,002	-
520	Public Safety	5,512,370	5,512,370	-
530	Utilities	5,977,955	-	-
540	Transportation	1,550,604	-	1,202,700
550	Natural/Economic Environment	550,102	543,718	-
560	Social Services	2,905	2,905	-
570	Culture and Recreation	544,046	482,542	-
Total Expenditures:		16,628,385	8,967,537	1,202,700
Excess (Deficiency) Revenues over Expenditures:		7,193,467	2,808,511	(268,671)
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	9,511,105	-	-
397	Transfers-In	1,462,501	651,203	570,000
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	160,366	116,566	-
Total Other Increases in Fund Resources:		11,133,972	767,769	570,000
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	1,582,022	79,175	-
591-593, 599	Debt Service	12,502,810	21,494	-
597	Transfers-Out	1,462,501	762,574	651,203
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		15,547,333	863,243	651,203
<b>Increase (Decrease) in Cash and Investments:</b>		<b>2,780,106</b>	<b>2,713,037</b>	<b>(349,874)</b>
<b>Ending Cash and Investments</b>				
50821	Nonspendable	100,000	-	-
50831	Restricted	1,715,479	43,427	-
50841	Committed	-	-	-
50851	Assigned	10,457,418	1,156,628	1,005,320
50891	Unassigned	4,812,505	4,812,505	-
<b>Total Ending Cash and Investments</b>		<b>17,085,402</b>	<b>6,012,560</b>	<b>1,005,320</b>

*The accompanying notes are an integral part of this statement.*



<b>108 Tourism</b>	<b>201 Bond</b>	<b>302 Capital Improvement</b>	<b>401 Water</b>	<b>402 Sewer</b>	<b>403 Solid Waste</b>
118,186	14,989	428,727	2,415,808	4,024,706	1,035,296
-	-	-	-	-	-
42,563	1,631	-	-	-	-
-	-	-	-	-	-
-	-	993,962	62,509	34,710	18,504
-	-	-	2,367,325	6,046,707	267
-	-	-	-	-	-
545	-	-	73,078	103,348	102
43,108	1,631	993,962	2,502,912	6,184,765	18,873
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,905,737	3,249,061	36,488
-	-	-	-	-	-
6,384	-	-	-	-	-
-	-	-	-	-	-
61,504	-	-	-	-	-
67,888	-	-	1,905,737	3,249,061	36,488
(24,780)	1,631	993,962	597,175	2,935,704	(17,615)
-	3,328,887	-	-	6,182,218	-
-	214,468	-	-	-	-
-	-	-	-	-	-
-	-	-	21,900	21,900	-
-	3,543,355	-	21,900	6,204,118	-
-	-	940,665	118,551	50,987	224
-	3,552,555	-	373,684	8,555,077	-
-	-	48,724	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	3,552,555	989,389	492,235	8,606,064	224
(24,780)	(7,569)	4,573	126,840	533,758	(17,839)
-	-	-	-	-	-
93,406	-	-	275,901	1,302,745	-
-	-	-	-	-	-
-	7,420	433,300	2,266,747	3,255,719	1,017,457
-	-	-	-	-	-
93,406	7,420	433,300	2,542,648	4,558,464	1,017,457

The accompanying notes are an integral part of this statement.

<b>404 Storm</b>	<b>502 Payroll Benefits</b>	<b>503 Equipment Rental</b>	<b>707 Library Endowment</b>
429,866	139,893	923,084	120,024
-	-	-	-
-	-	-	-
-	-	-	-
40,019	-	4,972	-
765,078	41,207	497,349	-
-	-	-	-
2,366	5,067	8,920	1,546
<u>807,463</u>	<u>46,274</u>	<u>511,241</u>	<u>1,546</u>
-	64,401	-	-
-	-	-	-
786,669	-	-	-
-	-	347,904	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>786,669</u>	<u>64,401</u>	<u>347,904</u>	<u>-</u>
<u>20,794</u>	<u>(18,127)</u>	<u>163,337</u>	<u>1,546</u>
-	-	-	-
-	26,830	-	-
-	-	-	-
-	-	-	-
<u>-</u>	<u>26,830</u>	<u>-</u>	<u>-</u>
69,921	-	322,499	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>69,921</u>	<u>-</u>	<u>322,499</u>	<u>-</u>
<u>(49,127)</u>	<u>8,703</u>	<u>(159,162)</u>	<u>1,546</u>
-	-	-	100,000
-	-	-	-
-	-	-	-
380,739	148,596	763,922	21,570
-	-	-	-
<u>380,739</u>	<u>148,596</u>	<u>763,922</u>	<u>121,570</u>

*The accompanying notes are an integral part of this statement.*

**City of Shelton**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2021**

		<b>Total for All Funds (Memo Only)</b>	<b>Pension/OPEB Trust Fund</b>	<b>Custodial</b>
308	Beginning Cash and Investments	1,144,047	539,841	604,206
388 & 588	Net Adjustments	-	-	-
310-390	Additions	1,690,425	8,674	1,681,751
510-590	Deductions	1,752,680	68,715	1,683,965
	Net Increase (Decrease) in Cash and Investments:	(62,255)	(60,041)	(2,214)
508	Ending Cash and Investments	1,081,792	479,800	601,992

*The accompanying notes are an integral part of this statement.*

**City of Shelton**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>Total for All Funds (Memo Only)</b>	<b>Pension/OPEB Trust Fund</b>	<b>Custodial</b>
308	Beginning Cash and Investments	1,101,966	610,461	491,505
388 & 588	Net Adjustments	-	-	-
310-390	Additions	1,516,428	14,224	1,502,204
510-590	Deductions	1,474,347	84,844	1,389,503
	Net Increase (Decrease) in Cash and Investments:	42,081	(70,620)	112,701
508	Ending Cash and Investments	1,144,047	539,841	604,206

*The accompanying notes are an integral part of this statement.*

## City of Shelton

### Notes to the Financial Statements For the year ended December 31, 2021

#### **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 council 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 (see Note 9 –Component Unit, Joint Ventures, and Related Parties).
- 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 presented using the classifications that are similar to the ending balance classification 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.

### 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 a custodian 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.

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

### E. Compensated Absences

Vacation leave may be accumulated up to two years of 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 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.

### F. Long-Term Debt

See Note 5, *Long-term Debt*.

### G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed 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 the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the following:

Projects and Programs	\$ 4,387,492
Tourism Promotion/Operations	89,620
Debt Service	1,727,290
	<u>\$ 6,204,402</u>

## **Note 2 – Budget Compliance**

The City adopts annual appropriated budgets for all 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 follows:

Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	15,532,780	12,466,414	3,066,366
Street	2,952,860	2,130,649	822,211
Capital Resources Fund	686,830	60,574	626,256
Tourism	61,880	60,303	1,578
Bond	184,490	179,036	5,454
Capital Improvement	2,887,730	669,129	2,218,601
Water	5,192,060	2,697,738	2,494,322
Sewer	9,692,560	6,217,084	3,475,476
Solid Waste	781,810	20,502	761,308
Storm Drainage	1,373,760	900,252	473,508
Payroll Benefits	206,700	51,439	155,261
EM&R	962,010	770,413	191,597
Library Endowment	-	-	-

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 legislative body.



### **Note 3 – Deposits and Investments**

Investments are reported at fair value. Deposits and Investments by type at December 31, 2021, are as follows:

Type of deposit or investment	Deposits and investments held by the City as custodian for other local governments, individuals or private organizations			Total
	City's own deposits and investments			
Main Checking	\$ 4,157,184	\$	1,071,847	\$ 5,229,031
LGIP	10,311,506		-	10,311,506
US Securities	6,500,000		-	6,500,000
Money Market	2		9,945	9,947
	<u>\$ 20,968,692</u>	<u>\$</u>	<u>1,081,792</u>	<u>\$ 22,050,484</u>

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

#### **Investments in the State Local Government Investment Pool (LGIP)**

The City is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the City would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the City or its agent in the government's name.

### **Note 4 - 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 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 2021 was \$2.50 per \$1,000 on an assessed valuation of \$862,236,465 for a total levy of \$2,156,213.

The City's special levy for the year 2021 was \$.38 per \$1,000 on an assessed valuation of \$862,236,465 for a total levy of \$329,215

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

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	\$ 2.5007217	\$ 2,156,213
Special - Emergency Medical Services	0.3818150	329,215
		<u>\$ 2,485,428</u>

## **Note 5 – Long-Term Debt (formerly Debt Service Requirements)**

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2021.

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

	Principal	Interest	Total
2022	1,898,033	841,620	2,739,653
2023	1,944,420	807,691	2,752,111
2024	1,919,431	771,268	2,690,699
2025	1,733,572	734,521	2,468,093
2026	1,749,662	697,677	2,447,339
2027-2031	7,592,814	2,904,441	10,497,255
2032-2036	5,339,913	2,079,333	7,419,245
2037-2041	5,102,526	1,516,858	6,619,384
2042-2046	5,267,652	910,291	6,177,943
2047-2051	4,188,648	362,783	4,551,431
2052-2054	752,651	20,919	773,570
Totals	\$ 37,489,321	\$ 11,647,402	\$ 49,136,723

## **Note 6 – Pension Plans**

### **A. State Sponsored Pension Plans**

Substantially all the City'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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

Also, the DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2021 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 207,118	0.027805%	\$ 339,564
PERS 2/3	333,639	0.035221%	\$ (3,508,578)
PSERS 2	4,528	0.009278%	\$ (21,315)
LEOFF 1	-	0.016592%	\$ (568,369)
LEOFF 2	97,451	0.048886%	\$ (2,839,501)

#### 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, 2021, membership consisted of 2 individuals, 1 retiree and 1 beneficiary and the net pension liability was \$63,025 as reported on Schedule 09.

#### **Note 7 – Other Postemployment Benefits (OPEB)**

During the year ended 2021, the City adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a postemployment benefit liability reported on the Schedule of Liabilities.

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. As of December 31, 2021, the plan had 5 members, all retirees. For the year ended December 31, 2021, the City's total OPEB liability was \$2,535,837, as calculated using the alternative measurement method and the City paid \$74,661 in benefits.

## **Note 8 – 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 166 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, prior wrongful acts, 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 \$400 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, reinsurance and other 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through Intermediary Insurance Services. 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC 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 for the fiscal year ending December 31, 2018. 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 9 – Component Unit(s), Joint Ventures, and Related Parties**

##### **Component Unit:**

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.

For 2021, SMPD had an operating budget of \$773,250. Revenues received as of December 31, 2021 were \$600,772 and total expenditures were \$622,715.

##### **Related Parties:**

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.

#### **Note 10 – COVID-19 Pandemic**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The City proactively implemented safety measures, and operations have continued with many City employees working remotely. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. To date, the City has not experienced any direct financial impacts due to the pandemic.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the City is unknown at this time.

#### **Note 11 – Pollution Remediation (Environmental)/Retirement of Certain Assets**

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; 2018 were \$153,743; 2019 were \$98,540; 2020 were \$36,358 and 2021 were \$20,503. The remedial investigation was completed in 2020 and the Remedial Investigation/Feasibility Study findings were submitted to DOE. The City contracted with Aspect Consulting to draft a Cleanup Action Plan and was also submitted to DOE in late 2020. In 2021, Aspect Consulting and City staff negotiated a new Agreed Order with the Department of Ecology to implement the Cleanup Action Plan and outline remaining elements required for the landfill to reach closeout status. In November of 2021, a 30-day public comment period, conducted by the Department of Ecology, commenced, allowing the public to view the Remedial Investigation and Feasibility Study document, the draft Cleanup Action Plan, and the new Agreed Order No. 19541 that was accepted by Council in September. The public comment period closed in December with only two comments received, neither of which had any bearing on the documents presented, which allowed the Department of Ecology to fully execute the new Agreed Order No 19541. Also in December 2021, the City entered into a new contract with Aspect Consulting to complete the construction planning components for the cleanup action that are outlined in the Agreed Order. In 2022, the City anticipates receiving a Letter of Satisfaction from the Department of Ecology, which will close out the initial Agreed Order No. 12929, as well as fulfill the Consent Decree. The City also anticipates Aspect Consulting to complete the environmental cleanup



construction design efforts by mid-2022, allowing the City to go out to bid for construction by summer. The estimated cost from DOE is \$816,926 to finish the remedial investigation action plan and closeout, which is expected to be completed by 2022. 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. In 2021, the City was awarded an additional \$1.2 million DOE Grant; \$900,000 in State funds and \$300,000 City funds as the 25% City match. A Funding Agreement for the new grant will not be drafted until all funds in the current grant have been expended.

#### **Note 12 - Other Disclosures**

##### **Prior Year Adjustments:**

In 2021, a comprehensive review was conducted for Street and Capital Funds in regards to the use of Transportation Benefit District (TBD), Real Estate Excise Tax 1 (REET 1), Real Estate Excise Tax 2 (REET 2) and Traffic Impact Fees (TIF) revenues. The review was from year 2016 to 2021 for capital projects in the Capital Fund as well as assigned grant revenue and revenues listed above. For transparency and clarification purposes, the City formed Capital Resource Funds for TBD, REET 1, REET 2 and TIF. Corrections were made, which resulted in prior year adjustments to correct the use of these revenues. Prior year adjustments were made to the Capital Fund from the Street Fund for \$226,352 and the General Fund for \$160,334. Also, prior year adjustments were made to the Capital Resource Funds from the unassigned revenues REET 1 of \$72,478, REET 2 of \$67,509 and TIF of \$722,470 from the Capital Fund to eliminate confusion until these source of revenues have been designated for use at which time transfers from the Capital Resource Funds will be transferred with project codes assigned to budgeted projects for accuracy and transparency purposes.

##### **Construction Commitments:**

As of December 31, 2021 the City did not have any active construction projects.

## City of Shelton

### Notes to the Financial Statements For the year ended December 31, 2020

#### **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 council 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 (see Note 9 –Component Unit, Joint Ventures, and Related Parties).
- 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 presented using the classifications that are similar to the ending balance classification 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.

### 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 custodian 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.

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

### E. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, 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 of 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 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.

### F. Long-Term Debt

See Note 5, *Long-term Debt*.

### G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed 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 the

most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the following:

Projects and Programs	\$	43,427
Tourism Promotion/Operations		93,406
Debt Service		1,578,646
	\$	<u>1,715,479</u>

## **Note 2 – Budget Compliance**

The City adopts annual appropriated budgets for all 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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	12,290,690	9,841,078	2,449,612
Street	2,280,650	1,853,903	426,747
Tourism	81,180	67,888	13,292
Bond	3,723,850	3,552,555	171,295
Capital Improvement	2,138,630	989,389	1,149,241
Water	3,720,740	2,397,972	1,322,768
Sewer	12,428,130	11,855,125	573,005
Solid Waste	1,459,020	36,712	1,422,308
Storm Drainage	1,275,710	856,590	419,120
Payroll Benefits	219,200	64,401	154,799
EM&R	863,720	670,403	193,317
Library Endowment	-	-	-

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 council.

### **Note 3 – Deposits and Investments**

Investments are reported at fair value. Deposits and Investments by type at December 31, 2020, are as follows:

Type of deposit or investment	Deposits and investments held by the City as custodian for other local governments, individuals or private organizations			Total
	City's own deposits and investments			
Main Checking	\$ 2,783,983	\$	1,100,244	\$ 3,884,227
LGIP	10,501,417		-	10,501,417
US Securities	3,800,000		-	3,800,000
Money Market	2		43,803	43,805
	<u>\$ 17,085,402</u>	<u>\$</u>	<u>1,144,047</u>	<u>\$ 18,229,449</u>

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

#### **Investments in the State Local Government Investment Pool (LGIP)**

The City is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the City would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the City or its agent in the government's name.

### **Note 4 - 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 the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City may levy up to \$2.75 per \$1,000 of assessed valuation for general governmental services. The City is also authorized to levy up to \$.42 per \$1,000 of assessed valuation for the Firemen's Pension Fund. (See Note #6) 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 2020, the City of Shelton levied the following property taxes on an assessed value of \$773,130,558. (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	\$ 2.7467555	\$ 2,123,601
Special - Emergency Medical Services	0.4193791	324,235
		<u>\$ 2,447,836</u>

## Note 5 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2020.

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

	Principal	Interest	Total
2021	1,851,926	898,851	2,750,777
2022	1,898,033	841,620	2,739,653
2023	1,944,420	807,691	2,752,111
2024	1,919,431	771,268	2,690,699
2025	1,733,572	734,521	2,468,093
2026-2030	8,134,760	3,100,392	11,235,152
2031-2035	5,503,469	2,210,208	7,713,677
2036-2040	5,103,912	1,629,897	6,733,809
2041-2045	5,466,612	1,038,605	6,505,217
2046-2050	4,160,723	457,832	4,618,555
2051-2054	1,624,390	55,368	1,679,758
Totals	\$ 39,341,248	\$ 12,546,253	\$ 51,887,501

#### Debt Refunding

The City issued \$8,860,000 of general obligation refunding bonds to retire \$9,500,584 of existing loans, LTGO bonds and revenue and refunding bond. This refunding was undertaken to reduce total debt service payments over the next 33 years by \$3,049,142. The financial statements reflect other financing sources of \$9,511,105 and other financing uses of \$9,511,105 pertaining to this transaction.

#### **Note 6 – Pension Plans**

##### A. State Sponsored Pension Plans

Substantially all the City'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 that includes financial statements and required supplementary information for each plan. The DRS Comprehensive Annual Financial Report may be obtained by writing to:

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



Also, the DRS Comprehensive Annual Financial Report may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2020 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 198,636	0.027408%	\$ 967,650
PERS 2/3	322,167	0.034971%	\$ 447,259
PSERS 2	4,348	0.009844%	\$ (1,355)
LEOFF 1	-	0.017545%	\$ (331,339)
LEOFF 2	94,122	0.048115%	\$ (981,476)

#### 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, 2020, membership consisted of 2 individuals, 1 retiree and 1 beneficiary and the net pension liability was \$5,357 as reported on Schedule 09.

#### **Note 7 – Other Postemployment Benefits (OPEB)**

During the year ended 2020, the City adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a postemployment benefit liability reported on the Schedule of Liabilities.

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. As of December 31, 2020, the plan had 6 members, all retirees. As of December 31, 2020, the City's total OPEB liability was \$3,013,068, as calculated using the alternative measurement method. For the year ended December 31, 2020, the City paid \$84,075 in benefits.

## **Note 8 – 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 162 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 \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 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 \$400 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, reinsurance and other 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, 2020, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 for the fiscal year ending December 31, 2018. 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 9 – Component Unit(s), Joint Ventures, and Related Parties**

##### **Component Unit:**

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 SMPD expenses are paid to the general fund to reimburse for eligible park district expenditures.

For 2020, SMPD had an operating budget of \$695,750. Revenues received as of December 31, 2020 were \$513,793 and total expenditures were \$388,487.

#### Related Parties:

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.

#### **Note 10 – COVID-19 Pandemic**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and nonessential activities.

The City immediately set about trying to forecast the impact of this order on City revenues, especially tax, permitting, and utility service revenues. There were several factors hampering the analysis of the impact on revenues, a) the length of the Stay Home / Stay Healthy order, b) the City had little data to project the immediate impact on revenues and, c) there was little data to use on estimating the time to full economic recovery. The City believes in a conservative approach to budgeting whereby revenue estimates are based on realistic, albeit conservative, assumptions to provide reasonable assurance that actual revenue will be equal or greater than budget and expenditures are then budgeted to fit within those revenue estimates.

As a result of the COVID-19 pandemic and the potential impacts to City revenues, the City created a four-tier expense reduction plan to offset any decreases in revenue. This tiered system was designed to put known processes in place to reduce expenses but at the same time, allow the City to make these decisions based on known revenue changes and not overreact and reduce beyond the necessary level. The first tier included freezing particular vacant positions and eliminating or reducing other non-labor accounts such as travel, training, office supplies, etc. The second tier included the elimination of certain filled positions as well as further reductions in non-labor accounts including professional and contracted services. The third tier included elimination of City programs and, the fourth tier was a further reduction of all City programs outside of mandated services.

The resulting impact to 2020 revenues from the COVID-19 pandemic was not as great to the City of Shelton as it had been in some other government entities. City tax and permitting revenue were above budget and utility service revenue was, depending on the utility, close to budget or greater than budgeted. However, the City did enact expenditure reductions from tier one and largely from tier two. The City also budgeted 2021 with a reduction of five positions from 2020 levels.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the City is unknown at this time.

## **Note 11 - Other Disclosures**

### **Special Item:**

On October 6, 2020, Standard & Poor's Rating Services confirmed the City's A+ bond rating with a stable outlook. On October 14, 2020, the City issued \$8,860,000 in general obligation bonds for the purpose of refunding seven (7) separate debt instruments totaling \$9,500,583.75 into one GO bond to maximize savings on the refunding. The bond closing took place on October 28, 2020. Two of the refunded bonds were GO bonds (2011 Series A & B Fire Station Bonds), four were loans from the State Department of Ecology (2008 WWTP Improvements A, 2010 Goldsborough Creek Sewer Improvements B, 2011 Basin 5 Sewer Rehab Design, and 2012 Basin 3 Sewer Rehab Design), and the final refunded debt was the 2012 WWTP Revenue and Refunding Bond. To achieve further savings on the refunding, the City chose to issue bond insurance through Build America Mutual. The refunding generated a Net Present Value savings of \$1,750,829.96 and shortened the final maturity from 2052 to 2047.

### **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; 2018 were \$153,743, 2019 were \$98,540 and 2020 were \$36,358. The remedial investigation was completed in 2020 and the Remedial Investigation/Feasibility Study findings were submitted to DOE. The City contracted with Aspect Consulting to draft a Cleanup Action Plan and was also submitted to DOE in late 2020. The City anticipates having a new Agreed Order executed late summer of 2021 and construction out to bid and commence in 2022. 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.

### **Construction Commitments:**

As of December 31, 2020 the City did not have any active construction projects.

**City of Shelton**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2021**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
263.96	Lease/Purchase Agreement, ST-LOCAL-2013 Civic Center Energy Efficiency - Heating/Cooling Equip	12/1/2023	59,890	-	18,974	40,916
263.81	Due to Other Governmental Units, #PC08-951-041 Regional Satellite Plant Project-Construction	6/1/2028	877,952	-	109,744	768,208
251.11	General Obligation Bonds, Refunding Bonds 2020 (LTGO)	12/1/1947	8,860,000	-	300,000	8,560,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>9,797,842</b>	<b>-</b>	<b>428,718</b>	<b>9,369,124</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	Revenue Bonds, 2013, Water Improvements (Angleside Booster Pump Station & Upper Mt View Impr)	12/1/2032	2,240,000	-	150,000	2,090,000
252.11	Revenue Bonds, 2014, Sewer - Basin 5 Improvements Project (USDA)	8/21/2054	3,032,435	-	58,887	2,973,548
252.11	Revenue Bonds, 2012B ARRA, Sewer - WWTP Improvements Project (USDA)	2/9/2052	4,275,700	-	94,626	4,181,074
252.11	Revenue Bonds, 2012C ARRA, Sewer - WWTP Improvements Project (USDA)	2/9/2052	5,130,839	-	113,551	5,017,288
252.11	Revenue Bonds, 2012D ARRA, Sewer - WWTP Improvements Project (USDA)	2/9/2052	8,020,345	-	177,501	7,842,844
263.82	Due to Other Governmental Units, #PW-04-691-060 Sewer Basin 2-Construction	7/1/2024	768,327	-	192,082	576,245
263.82	Due to Other Governmental Units, #PR-08-951-099 WWTP Improvements-Design ( B )	6/1/2028	367,134	-	45,892	321,242
263.82	Due to Other Governmental Units, #PR-09-951-017 WWTP Improvements-Design ( C )	6/1/2029	66,316	-	7,368	58,948
263.82	Due to Other Governmental Units, #PC-08-951-040 Sewer Basin 5 -Construction	7/1/2028	2,583,803	-	322,975	2,260,828
263.82	Due to Other Governmental Units, ST-Revolving Fund Loan #L0200016 - WWTP Digester Expansion	4/30/2024	172,341	-	49,241	123,100
263.82	Due to Other Governmental Units, ST-Revolving Fund Loan #L0800003 - Goldsborough Creek Sewer Improvements A-Construction	9/16/2030	1,003,262	-	100,326	902,936
263.82	Due to Other Governmental Units, Dept of Commerce loan Water UMVPZ Const I	10/1/2037	1,882,904	-	110,759	1,772,145
259.12	Compensated Absences, Governmental & Internal Service		397,042	40,402	-	437,444

**City of Shelton**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2021**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
259.12	Compensated Absences, Proprietary		73,720	49,470	-	123,190
263.22	C Street Landfill		528,285	20,503	-	548,788
264.30	Net Pension Liability - Firemen Pension		5,357	57,668	-	63,025
264.30	Net Pension Liability		1,414,910	-	1,075,346	339,564
264.40	OPEB Liability (LEOFF 1)		3,013,068	-	477,231	2,535,837
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>34,975,788</b>	<b>168,043</b>	<b>2,975,785</b>	<b>32,168,046</b>
<b>Total Liabilities:</b>			<b>44,773,630</b>	<b>168,043</b>	<b>3,404,503</b>	<b>41,537,170</b>



**City of Shelton  
Schedule of Liabilities  
For the Year Ended December 31, 2020**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	General Obligation Bonds, 2011A,Public Safety Bldg/Fire Station Project (LTGO-USDA)	10/12/2051	2,516,242	-	2,516,242	-
251.11	General Obligation Bonds, 2011B,Public Safety Bldg/Fire Station Project (LTGO-USDA)	10/12/2051	903,136	-	903,136	-
263.96	Lease/Purchase Agreement,ST-LOCAL-2013 Civic Center Energy Efficiency - Heating/Cooling Equip	12/1/2023	77,938	-	18,048	59,890
263.81	Due to Other Governmental Units,#PC08-951-041 Regional Satellite Plant Project-Construction	6/1/2028	987,696	-	109,744	877,952
251.11	General Obligation Bonds, Refunding Bonds 2020 (LTGO)	12/1/1947	-	8,860,000	-	8,860,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>4,485,012</b>	<b>8,860,000</b>	<b>3,547,170</b>	<b>9,797,842</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	Revenue Bonds, 2013,Water Improvements (Angleside Booster Pump Station & Upper Mt View Impr)	12/1/2032	2,385,000	-	145,000	2,240,000
252.11	Revenue Bonds, 2014,Sewer - Basin 5 Improvements Project (USDA)	8/21/2054	3,089,948	-	57,513	3,032,435
252.11	Revenue Bonds, 2012A,Sewer - WWTP Improvements Project (USDA)	2/9/2052	4,115,756	-	4,115,756	-
252.11	Revenue Bonds, 2012B ARRA,Sewer - WWTP Improvements Project (USDA)	2/9/2052	4,368,232	-	92,532	4,275,700
252.11	Revenue Bonds, 2012C ARRA,Sewer - WWTP Improvements Project (USDA)	2/9/2052	5,241,878	-	111,039	5,130,839
252.11	Revenue Bonds, 2012D ARRA,Sewer - WWTP Improvements Project (USDA)	2/9/2052	8,193,919	-	173,574	8,020,345
263.82	Due to Other Governmental Units,#PW-04-691-060 Sewer Basin 2-Construction	7/1/2024	960,409	-	192,082	768,327
263.82	Due to Other Governmental Units,#PR-08-951-099 WWTP Improvements-Design ( B )	6/1/2028	413,026	-	45,892	367,134
263.82	Due to Other Governmental Units,#PR-09-951-017 WWTP Improvements-Design ( C )	6/1/2029	73,684	-	7,368	66,316
263.82	Due to Other Governmental Units,#PC-08-951-040 Sewer Basin 5 -Construction	7/1/2028	2,906,778	-	322,975	2,583,803
263.82	Due to Other Governmental Units,ST-Revolving Fund Loan #L0200016 - WWTP Digester Expansion	4/30/2024	221,582	-	49,241	172,341

**City of Shelton**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2020**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L0800003 - Goldsborough Creek Sewer Improvements A-Construction	9/16/2030	1,103,588	-	100,326	1,003,262
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L1000002 - Goldsborough Creek Sewer Improvements B-Construction	9/23/2030	420,658	-	420,658	-
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L0800005 - Sewer Basin 5 Rehab Design	3/31/2031	625,109	-	625,109	-
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L0800004 - WWTP Improvements Design	8/26/2029	842,374	-	842,374	-
263.82	Due to Other Governmental Units,ST- Revolving Fund Loan #L1200003 - Sewer Basin 3 Rehab Design	3/31/2033	373,135	-	373,135	-
263.82	Due to Other Governmental Units, Dept of Commerce loan Water UMVPZ Const I	10/1/2037	1,993,663	-	110,759	1,882,904
259.12	Compensated Absences,Governmental & Internal Service		362,837	34,205	-	397,042
259.12	Compensated Absences,Proprietary		78,420	-	4,700	73,720
263.22	C Street Landfill		564,643	-	36,358	528,285
264.30	Net Pension Liability - Firemen Pension		(57,209)	62,566	-	5,357
264.30	Net Pension Liability		1,435,277	-	20,367	1,414,910
264.40	OPEB Liability (LEOFF 1)		2,800,859	212,209	-	3,013,068
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>42,513,566</b>	<b>308,980</b>	<b>7,846,758</b>	<b>34,975,788</b>
<b>Total Liabilities:</b>			<b>46,998,578</b>	<b>9,168,980</b>	<b>11,393,928</b>	<b>44,773,630</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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