

Washington State Auditor's Office
Financial Statements Audit Report

City of Sedro-Woolley
Skagit County

Audit Period
January 1, 2006 through December 31, 2006

Report No. 73527

Issue Date
November 5, 2007



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 5, 2007

Mayor and City Council
City of Sedro-Woolley
Sedro-Woolley, Washington

Report on Financial Statements

Please find attached our report on the City of Sedro-Woolley's financial statements.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Skagit County
January 1, 2006 through December 31, 2006**

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**Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters in Accordance
with *Government Auditing Standards***

**City of Sedro-Woolley
Skagit County
January 1, 2006 through December 31, 2006**

Mayor and City Council
City of Sedro-Woolley
Sedro-Woolley, Washington

We have audited the financial statements of the City of Sedro-Woolley, Skagit County, Washington, as of and for the year ended December 31, 2006, and have issued our report thereon dated September 24, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management and the Mayor and City Council. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 24, 2007

Independent Auditor's Report on Financial Statements

City of Sedro-Woolley Skagit County January 1, 2006 through December 31, 2006

Mayor and City Council
City of Sedro-Woolley
Sedro-Woolley, Washington

We have audited the accompanying financial statements of the City of Sedro-Woolley, Skagit County, Washington, for the year ended December 31, 2006. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the City prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Sedro-Woolley, for the year ended December 31, 2006, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial

statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 24, 2007

Financial Section

**City of Sedro-Woolley
Skagit County
January 1, 2006 through December 31, 2006**

FINANCIAL STATEMENTS

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CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

BARS CODE	General/Special Revenue Fund	Fund Number and Name 001 Current Expense		Fund Number and Name 104 Arterial Streets	
		BUDGET	ACTUAL	BUDGET	ACTUAL
		Beginning Net Cash and Investments		\$ 1,155,554	\$ 1,338,680
Revenues and Other Sources:					
310	Taxes	2,563,050	2,928,302	0	0
320	Licenses and Permits	92,050	252,356	0	0
330	Intergovernmental	322,612	311,863	20,000	173,747
340	Charges for Goods and Services	284,500	269,681	120,000	197,328
350	Fines and Forfeits	43,100	57,801	0	0
360	Miscellaneous	37,350	78,920	35,000	153,685
390	Other Financing Sources	220,800	229,615	0	
	Total Revenues and Other Sources	3,563,462	4,128,538	175,000	524,760
	Total Resources	4,719,016	5,467,218	1,098,556	1,426,286
Operating Expenditures:					
510	General Government	616,452	515,335	0	0
520	Security of Persons & Property	2,769,405	2,717,666	0	0
530	Physical Environment	330,053	314,191	0	0
540	Transportation	0	0	0	0
550	Economic Environment	174,573	158,196	4,194	4,180
560	Mental & Physical Health	19,310	17,946	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	3,909,793	3,723,334	4,194	4,180
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	334,012	316,545	578,000	164,307
	Total Expenditures	4,243,805	4,039,878	582,194	168,487
597-599	Other Financing Uses	7,100	7,100	0	0
	Total Expenditures and Other Uses	4,250,905	4,046,978	582,194	168,487
Excess (Deficit) of Resources Over Uses		468,111	1,420,239	516,362	1,257,798
380	Nonrevenues (Except 384)	2,000	18,737	0	0
580	Nonexpenditures (Except 584)	1,400	954	0	0
Ending Net Cash and Investments		\$ 468,711	\$ 1,438,022	\$ 516,362	\$ 1,257,798

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

BARS CODE	Special Revenue Funds	Fund Number and Name 110 Public Lands		Fund Number and Name 401 Sewer	
		BUDGET	ACTUAL	BUDGET	ACTUAL
		Beginning Net Cash and Investments		\$ 206,933	\$ 229,112
Revenues and Other Sources					
310	Taxes	729,000	733,418	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	231,000	226,722	0	0
340	Charges for Goods and Services	137,250	173,588	2,186,720	2,220,887
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	10,400	17,504	329,731	118,025
390	Other Financing Sources	150,000	140,576	0	0
	Total Revenues and Other Sources	1,257,650	1,291,808	2,516,451	2,338,912
	Total Resources	1,464,583	1,520,920	3,761,767	3,031,301
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	1,236,330	1,124,394
540	Transportation	805,095	796,704	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	322,502	360,112	0	0
	Total Operating Expenditures	1,127,597	1,156,815	1,236,330	1,124,394
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	155,100	115,513	1,031,500	556,475
	Total Expenditures	1,282,697	1,272,328	2,267,830	1,680,868
597-599	Other Financing Uses	104,700	104,700	422,500	419,500
	Total Expenditures and Other Uses	1,387,397	1,377,028	2,690,330	2,100,368
Excess (Deficit) of Resources Over Uses		77,186	143,892	1,071,437	930,932
380	Nonrevenues (Except 384)	38,000	37,961	38,000	0
580	Nonexpenditures (Except 584)	0	0	0	0
Ending Net Cash and Investments		\$ 115,186	\$ 181,853	\$ 1,109,437	\$ 930,932

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

BARS CODE	Enterprise/Debt Service Funds	Fund Number and Name 302 Capital Outlay		Fund Number and Name 332 PWTF Sewer Const	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 910,041	\$ 897,699	\$ 489,375	\$ 444,840
Revenues and Other Sources					
310	Taxes	500,000	547,699	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	25,000	48,045	5,000	42,701
390	Other Financing Sources	0	0	574,676	450,008
Total Revenues and Other Sources		525,000	595,744	579,676	492,709
Total Resources		1,435,041	1,493,443	1,069,051	937,549
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
Total Operating Expenditures		0	0	0	0
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	277,750	245,034	4,334,449	3,930,169
Total Expenditures		277,750	245,034	4,334,449	3,930,169
597-599	Other Financing Uses	125,000	125,000	0	0
Total Expenditures & Other Uses		402,750	370,034	4,334,449	3,930,169
Excess (Deficit) of Resources Over Uses		1,032,291	1,123,409	(3,265,398)	(2,992,620)
380	Nonrevenues (Except 384)	0	0	3,326,625	3,150,000
580	Nonexpenditures (Except 584)	0	0	0	0
Ending Net Cash and Investments		\$ 1,032,291	\$ 1,123,409	\$ 61,227	\$ 157,380

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

BARS CODE	Enterprise/Debt Service Funds	Fund Number and Name 407 Sewer Revenue Bond		Fund Number and Name 410 Cum Reserve - Sewer	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 115,243	\$ 149,136	\$ 1,187,031	\$ 2,243,214
Revenues and Other Sources					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	18,000	22,457	1,253,240	1,397,773
390	Other Financing Sources	500,000	500,000	0	0
	Total Revenues and Other Sources	518,000	522,457	1,253,240	1,397,773
	Total Resources	633,243	671,593	2,440,271	3,640,987
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	0	0	0	0
591-93	Debt Service	213,000	212,639	6,000	5,917
594-96	Capital Outlay	0	0	0	0
	Total Expenditures	213,000	212,639	6,000	5,917
597-599	Other Financing Uses	0	0	822,505	697,829
	Total Expenditures & Other Uses	213,000	212,639	828,505	703,746
Excess (Deficit) of Resources Over Uses		420,243	458,955	1,611,766	2,937,241
380	Nonrevenues (Except 384)	0	0	0	0
580	Nonexpenditures (Except 584)	295,000	295,000	76,000	37,961
Ending Net Cash and Investments		\$ 125,243	\$ 163,955	\$ 1,535,766	\$ 2,899,279

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

BARS CODE	Construction/Enterprise Funds	Fund Number and Name 412 Garbage		Fund Number and Name 501 Equip Replacement Fund	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 185,636	\$ 205,333	\$ 793,605	\$ 773,400
Revenues and Other Sources					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	1,329,440	1,354,930	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	19,500	48,582	25,000	37,212
390	Other Financing Sources	0	0	237,800	237,800
	Total Revenues and Other Sources	1,348,940	1,403,512	262,800	275,012
	Total Resources	1,534,576	1,608,845	1,056,405	1,048,412
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	1,189,425	1,145,920	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	1,189,425	1,145,920	0	0
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	1,000	0	807,643	505,857
	Total Expenditures	1,190,425	1,145,920	807,643	505,857
597-599	Other Financing Uses	145,500	145,500	0	0
	Total Expenditures & Other Uses	1,335,925	1,291,420	807,643	505,857
Excess (Deficit) of Resources Over Uses		198,651	317,425	248,762	542,555
380	Nonrevenues (Except 384)	0	0	35,000	35,000
580	Nonexpenditures (Except 584)	35,000	35,000	0	0
Ending Net Cash and Investments		\$ 163,651	\$ 282,425	\$ 283,762	\$ 577,555

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

Fund Type: Special Revenue	Fund Number and Name 105 Library		Fund Number and Name 106 Cemetery Endowment	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 27,266	\$ 29,231	\$ 109,646	\$ 115,546
Revenues and Other Financing Sources	227,543	233,941	2,300	3,150
Total Resources	254,809	263,172	111,946	118,696
Expenditures and Other Financing Uses	231,083	227,524	100,000	0
Excess (Deficit) of Resources Over Uses	23,726	35,648	11,946	118,696
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 23,726	\$ 35,648	\$ 11,946	\$ 118,696

Fund Type: Special Revenue	Fund Number and Name 107 Cum Reserve Parks		Fund Number and Name 108 Stadium/Conv Center	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 447	\$ 38,856	\$ 11,759	\$ 11,291
Revenues and Other Financing Sources	56,050	39,548	25,500	28,620
Total Resources	56,497	78,404	37,259	39,911
Expenditures and Other Financing Uses	56,000	27,039	29,250	28,228
Excess (Deficit) of Resources Over Uses	497	51,366	8,009	11,683
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 497	\$ 51,366	\$ 8,009	\$ 11,683

Fund Type: Special Revenue	Fund Number and Name 109 Special Investigations		Fund Number and Name 113 Paths & Trails	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 4,041	\$ 4,561	\$ 32,265	\$ 32,227
Revenues and Other Financing Sources	125	227	1,960	2,678
Total Resources	4,166	4,788	34,225	34,905
Expenditures and Other Financing Uses	1,300	0	0	0
Excess (Deficit) of Resources Over Uses	2,866	4,788	34,225	34,905
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 2,866	\$ 4,788	\$ 34,225	\$ 34,905

The Accompanying Notes are an Integral Part of this Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

Fund Type: Special Revenue	Fund Number and Name 204 LID 1991-1 Debt Service		Fund Number and Name 230 G O Bond Redemption	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 15,087	\$ 16,921	\$ 73,916	\$ 66,968
Revenues and Other Financing Sources	975	2,080	191,750	196,497
Total Resources	16,062	19,001	265,666	263,465
Expenditures and Other Financing Uses	0	0	194,500	194,545
Excess (Deficit) of Resources Over Uses	16,062	19,001	71,166	68,921
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 16,062	\$ 19,001	\$ 71,166	\$ 68,921

Fund Type: Debt Service	Fund Number and Name 310 Mitigation Reserve-Police		Fund Number and Name 311 Mitigation Reserve-Parks	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 57,320	\$ 68,459	\$ 95,960	\$ 61,593
Revenues and Other Financing Sources	27,300	31,403	27,000	78,365
Total Resources	84,620	99,862	122,960	139,958
Expenditures and Other Financing Uses	31,800	31,800	47,000	15,576
Excess (Deficit) of Resources Over Uses	52,820	68,062	75,960	124,382
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 52,820	\$ 68,062	\$ 75,960	\$ 124,382

Fund Type: Debt Service	Fund Number and Name 312 Mitigation Reserve-Fire		Fund Number and Name 331 WWTP Construction	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 25,961	\$ 38,211	\$ 2,171	\$ 2,078
Revenues and Other Financing Sources	50,800	56,519	\$ -	\$ 102
Total Resources	76,761	94,730	2,171	2,180
Expenditures and Other Financing Uses	0	7,606	2,171	2,180
Excess (Deficit) of Resources Over Uses	76,761	87,124	0	0
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 76,761	\$ 87,124	\$ -	\$ -

The Accompanying Notes are an Integral Part of this Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2006

Fund Type: Capital Outlay	Fund Number and Name 411 1998 Sewer Bond Reserve		Fund Number and Name 621 Suspense Fund	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 519,239	\$ 519,239	\$ 103,777	\$ 103,776
Revenues and Other Financing Sources	0	0	-103,777	-69,606
Total Resources	519,239	519,239	0	34,170
Expenditures and Other Financing Uses	0	0	0	0
Excess (Deficit) of Resources Over Uses	519,239	519,239	0	34,170
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 519,239	\$ 519,239	\$ -	\$ 34,170

Fund Type: Capital Outlay	Fund Number and Name		Fund Number and Name	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments				
Revenues and Other Financing Sources	0	0		
Total Resources	0	0	0	0
Expenditures and Other Financing Uses	0	0	0	0
Excess (Deficit) of Resources Over Uses	0	0	0	0
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ -	\$ -	\$ -	\$ -

Fund Type: Capital Outlay	Fund Number and Name		Fund Number and Name	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ -	\$ -	\$ -	\$ -
Revenues and Other Financing Sources	0	0	0	0
Total Resources	0	0	0	0
Expenditures and Other Financing Uses	0	0	0	0
Excess (Deficit) of Resources Over Uses	0	0	0	0
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ -	\$ -	\$ -	\$ -

The Accompanying Notes are an Integral Part of this Statement.

**CITY OF SEDRO-WOOLLEY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The City of Sedro-Woolley uses the revenue and expenditure classifications contained in the *Budgeting, Accounting and Reporting System* (BARS) manual. The manual is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Sedro-Woolley was incorporated in December 1898 and operates under the laws of the state of Washington applicable to a Second Class City with a Mayor-Council form of government. The City of Sedro-Woolley is a general purpose government and provides applicable municipal services. The City of Sedro-Woolley uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the City of Sedro-Woolley are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Sedro-Woolley's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Sedro-Woolley:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the City of Sedro-Woolley. 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 revenues that are legally restricted or designated to finance particular activities of the City of Sedro-Woolley.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are designated for the acquisition or construction of general government capital projects.

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Expendable Trust Funds

These funds account for assets where both principal and interest may be spent.

Non-expendable Trust Funds

These funds account for assets of which the principal may not be spent.

Agency Funds

These funds are used to account for assets that the City of Sedro-Woolley holds for others in an agency capacity.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law.

Purchases of fixed assets are expensed during the year of acquisition. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

c. Budgets

Annual appropriated budgets are adopted for all funds. The financial statements include budgetary comparisons for those funds.

Annual appropriated budgets are adopted at the fund level except the General (Current Expense) Fund, where budgets are adopted at the department level. The budgets constitute the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal period end.

The Clerk-Treasurer is authorized to transfer budgeted amounts between 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 of Sedro-Woolley's legislative body.

d. Cash

It is the City of Sedro-Woolley's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

e. Deposits

The City of Sedro-Woolley's deposits and certificates of deposit are covered by the Washington Public Deposit Protection Commission.

f. Investments See Note #3

CITY OF SEDRO-WOOLLEY

g. Fixed Assets

Fixed assets are long-lived assets of the City of Sedro-Woolley and are recorded as expenditures when purchased.

h. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement. Sick leave may be accumulated up to 1,440 hours. Upon separation employees do not receive payment for unused sick leave. Upon retirement employees receive payment for 25% of unused sick leave.

i. Long-Term Debt See Note #5

j. Other Financing Sources or Uses

The City of Sedro-Woolley's "Other Financing Sources or Uses" consist of Operating Transfers-in, Sale of Fixed Assets, Bond Proceeds, and Operating Transfers-out.

k. Risk Management

The City of Sedro-Woolley is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Currently, the CIAW has 110 member cities and 172 associate members.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability is on a "claims made basis". All other coverages are on an "occurrence basis". The pool provides the following forms of group purchased insurance coverage for its members: Property, liability, vehicle liability, other mobile equipment, boiler and machinery, bonds of various types, excess liability and public official liability.

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool, however, purchases a Stop Loss Policy in the amount of \$5,200,000 to eliminate any risk to members and, in addition, fully funds the Stop Loss in the budget.

Property insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$9,000.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

Each new member now pays the pool an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 before terminating participation the following September 1. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member remains responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, Inc., which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2005 and 2006 were \$1,057,063 and \$1,153,031 respectively.

A governing board is selected by the membership and is responsible for conducting the business affairs of the pool. The Board of Directors has contracted with Canfield & Associates, Inc. to perform day-to-day administration of the pool. This pool has no employees. Copies of the pool's annual report may be obtained by writing to 451 Diamond Drive, Ephrata, WA 98823.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Sedro-Woolley.

NOTE 3 - INVESTMENTS

The City of Sedro-Woolley's investments are either insured, registered or held by the City or its agent in the City's name.

Investments by type at December 31, 2006 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
Local Government Investment Pool	\$11,118,517
TOTAL	\$11,118,517

NOTE 4 - PROPERTY TAXES

The 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. Property tax revenues are recognized when cash is received by the City of Sedro-Woolley. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City of Sedro-Woolley's regular levy for 2006 was \$2.5356, the General Obligation Bond levy was \$0.3306, for a total levy of \$2.8662 per \$1,000 on an assessed valuation of \$589,957,949 for a total property tax levy of \$1,687,881.

NOTE 5 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Debt provides a listing of the outstanding debt of the City of Sedro-Woolley and summarizes the city's debt transactions for 2006. The debt service requirements, including interest, are as follows:

	General Obligation Bonds	Revenue Bonds	Other Debts	Total Debts
2006	\$ 247,574	\$ 513,252		\$ 760,826
2007	250,712	642,050		892,762
2008	253,224	637,085		890,309
2009	260,112	626,631		886,743
2010	201,600	625,485		827,085
2011-2015	1,102,750	2,350,274		3,453,024
2016-2020	239,200	1,704,672		1,943,872
2021-2025		845,526		845,526
2026-2030		<u>166,618</u>		<u>166,618</u>
TOTALS	\$2,555,172	\$8,111,593	\$ 0	\$10,666,765

NOTE 6 - PENSION PLANS

Substantially all City of Sedro-Woolley full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS), Law Enforcement Officer's and Fire Fighter's Retirement System (LEOFF), or Volunteer Fire Fighter's Relief and Pension Fund administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by the plan.

Historical trend information showing each system's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's *Comprehensive Annual Financial Report*. Please refer to said report for detailed information.

State of Washington
 Department of Retirement Systems
 Communications Unit
 PO Box 48380
 Olympia, WA 98504-8380

NOTE 7 – INTERFUND LOANS

The following table displays interfund loan activity during 2006:

Borrowing Fund	Lending Fund	Balance 01/01/06	New Loans	Repayments	Balance 12/31/06
Solid Waste	Equipment Replacement	\$ 84,193	\$ 0	\$ 31,622	\$ 52,571
Public Lands	Sewer Reserve	\$ 0	\$ 37,961	\$ 0	\$ 37,961

SCHEDULE OF LONG TERM DEBT

For the Year Ended December 31, 2006

- GO Debt
- Revenue Debt
- Assessment Debt
- Refunded Debt
- Debt of Special Purpose Districts

	(1)	(2)	(3)	(4)
ID NO.	Beginning Outstanding Debt 01/01/06 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	ENDING OUTSTANDING DEBT 12/31/06 (1) + (2) - (3)
251.12	345,000	-	105,000	240,000
251.11	197,596	-	46,602	150,994
251.12	1,500,000	-	10,000	1,490,000
TOTALS	\$ 2,042,596	\$ -	\$ 161,602	\$ 1,880,994

SCHEDULE OF LONG TERM DEBT

For the Year Ended December 31, 2006

- GO Debt
- Revenue Debt
- Assessment Debt
- Refunded Debt
- Debt of Special Purpose Districts

ID NO.	Date of Original Issue	Date of Maturity	(1)		(2)		(3)		(4)	
			Beginning Outstanding Debt 01/01/05 (Ending Balance from Prior Year)	Outstanding Debt	Amount Issued in Current Year	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	ENDING OUTSTANDING DEBT 12/31/05 (1) + (2) - (3)	
252.11	6/10/1998	6/1/2018	\$ 4,650,000	\$ -	-	295,000	582.35.72	407	4,355,000	
263.82	5/13/2005	7/1/2010	\$ 529,875	\$ -	-	-		410	529,875	
263.82	7/6/2006	7/1/2026	\$ -	\$ 3,150,000	\$ -	\$ -	\$ -	410	3,150,000	
TOTALS			\$ 5,179,875	\$ 3,150,000	\$ 295,000	\$ -			\$ 8,034,875	



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

**State Auditor
Chief of Staff
Chief Policy Advisor
Director of Administration
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free hotline for government efficiency**

**Brian Sonntag, CGFM
Ted Rutt
Jerry Pugnetti
Doug Cochran
Chuck Pfeil, CPA
Linda Long, CPA, CGFM
Jim Brittain, CPA
Jan Jutte
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900**

Web Site

www.sao.wa.gov