



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

**Financial Statements Audit Report**  
**City of Sedro-Woolley**

**For the period January 1, 2019 through December 31, 2019**

**Published January 21, 2021**

**Report No. 1027648**





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

January 21, 2021

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.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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

**City of Sedro-Woolley  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Sedro-Woolley  
Sedro-Woolley, 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 Sedro-Woolley, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 13, 2021.

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.

As discussed in Note 7 to the financial statements, during the year ended December 31, 2019, the City adopted a new accounting guidance for presentation and disclosure of postemployment benefits other than pensions as required by the BARS manual.

As discussed in Note 8 to the financial statements, in February 2020 a state of emergency was declared that could have a negative financial effect on the City.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the

City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy  
State Auditor  
Olympia, WA

January 13, 2021

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Sedro-Woolley January 1, 2019 through December 31, 2019

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Sedro-Woolley, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Sedro-Woolley, and its changes in cash and investments, for the year ended December 31, 2019, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

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

## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Sedro-Woolley, as of December 31, 2019, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Matters of Emphasis**

As discussed in Note 7 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 8 to the financial statements, in February 2020 a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Supplementary and Other Information***

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

January 13, 2021

## **FINANCIAL SECTION**

### **City of Sedro-Woolley January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

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

Schedule of Liabilities – 2019

**City of Sedro-Woolley**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		Total for All Funds (Memo Only)	001 Current Expense Fund	102 Cemetery Fund	103 Street Fund
<b>Beginning Cash and Investments</b>					
30810	Reserved	275,000	-	-	-
30880	Unreserved	8,898,815	1,410,113	42,424	130,828
388 / 588	Net Adjustments	35,097	5,497	449	1,654
<b>Revenues</b>					
310	Taxes	7,028,697	4,420,058	92,038	504,567
320	Licenses and Permits	453,677	453,677	-	-
330	Intergovernmental Revenues	4,399,248	2,231,228	-	253,805
340	Charges for Goods and Services	9,426,448	1,171,868	67,198	368
350	Fines and Penalties	121,812	71,562	-	-
360	Miscellaneous Revenues	1,028,513	161,437	2,315	2,867
Total Revenues:		22,458,395	8,509,830	161,551	761,607
<b>Expenditures</b>					
510	General Government	1,076,319	1,076,319	-	-
520	Public Safety	5,827,152	5,296,805	-	-
530	Utilities	5,848,607	-	122,779	-
540	Transportation	729,750	-	-	639,301
550	Natural and Economic Environment	271,270	202,795	-	-
560	Social Services	65,631	65,631	-	-
570	Culture and Recreation	857,322	646,001	-	-
Total Expenditures:		14,676,051	7,287,551	122,779	639,301
Excess (Deficiency) Revenues over Expenditures:		7,782,344	1,222,279	38,772	122,306
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	195,500	-	-	-
397	Transfers-In	1,949,294	306,624	5,000	94,412
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	116,956	99,611	1,252	899
381, 382, 395, 398	Other Resources	1,284,904	5,590	-	-
Total Other Increases in Fund Resources:		3,546,654	411,825	6,252	95,311
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	4,150,962	459,187	-	107,868
591-593, 599	Debt Service	889,241	7,535	-	-
597	Transfers-Out	1,949,294	411,604	11,004	69,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	90,280	80,623	-	-
581, 582	Other Uses	1,135,533	145,761	-	-
Total Other Decreases in Fund Resources:		8,215,310	1,104,710	11,004	176,868
<b>Increase (Decrease) in Cash and Investments:</b>		<b>3,113,688</b>	<b>529,394</b>	<b>34,020</b>	<b>40,749</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	150,000	-	-	-
5088000	Unreserved	12,172,605	1,945,011	76,894	173,231
<b>Total Ending Cash and Investments</b>		<b>12,322,605</b>	<b>1,945,011</b>	<b>76,894</b>	<b>173,231</b>

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 Ended December 31, 2019**

		<b>104 Arterial Street Fund</b>	<b>105 Library Fund</b>	<b>106 Cemetery Endowment Fund</b>	<b>108 Lodging Tax Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	125,000	-	-	-
30880	Unreserved	784,903	48,309	60,821	17,414
388 / 588	Net Adjustments	-	1,984	-	-
<b>Revenues</b>					
310	Taxes	-	406,989	-	32,610
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	445,115	-	-	-
340	Charges for Goods and Services	210,025	-	2,800	-
350	Fines and Penalties	-	45	-	-
360	Miscellaneous Revenues	16,486	2,052	-	545
Total Revenues:		671,626	409,086	2,800	33,155
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	8,114	-	-	-
550	Natural and Economic Environment	-	-	-	29,576
560	Social Services	-	-	-	-
570	Culture and Recreation	-	198,242	-	-
Total Expenditures:		8,114	198,242	-	29,576
Excess (Deficiency) Revenues over Expenditures:		663,512	210,844	2,800	3,579
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	280,288	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		280,288	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	777,580	(30)	-	-
591-593, 599	Debt Service	2,036	759	-	-
597	Transfers-Out	-	110,700	5,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	500,000	-	-	-
Total Other Decreases in Fund Resources:		1,279,616	111,429	5,000	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(335,816)</b>	<b>99,415</b>	<b>(2,200)</b>	<b>3,579</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	574,086	149,707	58,621	20,993
<b>Total Ending Cash and Investments</b>		<b>574,086</b>	<b>149,707</b>	<b>58,621</b>	<b>20,993</b>

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 Ended December 31, 2019**

		109 Special Investigation Fund	112 Code Enforcement Fund	113 Paths And Trails Fund	114 Law Enforcement Sales Tax
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	29,535	58,544	5,289	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	527,347
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	1,196	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	50,000	-	-
360	Miscellaneous Revenues	1,213	1,418	125	-
Total Revenues:		1,213	51,418	1,321	527,347
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	3,000	-	-	527,347
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		3,000	-	-	527,347
Excess (Deficiency) Revenues over Expenditures:		(1,787)	51,418	1,321	-
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	78	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		78	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(1,709)</b>	<b>51,418</b>	<b>1,321</b>	<b>-</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	27,826	109,961	6,610	-
<b>Total Ending Cash and Investments</b>		<b>27,826</b>	<b>109,961</b>	<b>6,610</b>	<b>-</b>

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 Ended December 31, 2019**

		<b>115 City Council Strategic Reserve</b>	<b>205 2008 G/O Bond Fund</b>	<b>230 1996 G/O Bond Redemption</b>	<b>302 2nd 1/4% Real Estate Excise Tax</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	150,000	-	-
30880	Unreserved	335,864	60,949	6,383	250,822
388 / 588	Net Adjustments	-	-	146	25,367
<b>Revenues</b>					
310	Taxes	157,345	95,196	(146)	420,426
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	318	1,564	-	23,747
Total Revenues:		157,663	96,760	(146)	444,173
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	38,899	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	10,000	-	-	-
Total Expenditures:		48,899	-	-	-
Excess (Deficiency) Revenues over Expenditures:		108,764	96,760	(146)	444,173
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	98,259	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	532,060
Total Other Increases in Fund Resources:		-	98,259	-	532,060
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	250,549	-	-
597	Transfers-Out	66,659	-	6,383	276,829
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		66,659	250,549	6,383	276,829
<b>Increase (Decrease) in Cash and Investments:</b>		<b>42,105</b>	<b>(55,530)</b>	<b>(6,529)</b>	<b>699,404</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	150,000	-	-
5088000	Unreserved	377,969	5,418	-	975,593
<b>Total Ending Cash and Investments</b>		<b>377,969</b>	<b>155,418</b>	<b>-</b>	<b>975,593</b>

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 Ended December 31, 2019**

		<b>303 Building Maintenance Reserve</b>	<b>304 Transportation Benefit District</b>	<b>305 Library Construction Fund</b>	<b>310 Police Mitigation Reserve Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	141,106	30,936	978,144	33,382
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	214,117	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	1,442,905	-
340	Charges for Goods and Services	-	-	-	22,584
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	5,408	41	-	1,016
Total Revenues:		5,408	214,158	1,442,905	23,600
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	3,079	-
Total Expenditures:		-	-	3,079	-
Excess (Deficiency) Revenues over Expenditures:		5,408	214,158	1,439,826	23,600
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	195,500	-
397	Transfers-In	-	-	110,700	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	306,200	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	1,766,884	-
591-593, 599	Debt Service	-	-	10,615	-
597	Transfers-Out	37,263	200,000	-	5,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	474,372	-
Total Other Decreases in Fund Resources:		37,263	200,000	2,251,871	5,000
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(31,855)</b>	<b>14,158</b>	<b>(505,845)</b>	<b>18,600</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	109,251	45,094	472,300	51,983
<b>Total Ending Cash and Investments</b>		<b>109,251</b>	<b>45,094</b>	<b>472,300</b>	<b>51,983</b>

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 Ended December 31, 2019**

		311 Parks Impact Fee Reserve Fund	312 Fire Impact Fee Reserve Fund	313 Public Safety Sales Tax Fund	401 Sewer Operations Fund
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	173,905	29,448	63,104	3,250,427
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	158,150	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	107,750	81,516	-	4,072,977
350	Fines and Penalties	-	-	-	205
360	Miscellaneous Revenues	4,780	1,269	73	756,891
Total Revenues:		112,530	82,785	158,223	4,830,073
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	2,501,219
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	2,501,219
Excess (Deficiency) Revenues over Expenditures:		112,530	82,785	158,223	2,328,854
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	661,161
Total Other Increases in Fund Resources:		-	-	-	661,161
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	840,315
591-593, 599	Debt Service	-	-	-	615,804
597	Transfers-Out	111,549	36,000	129,996	119,139
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		111,549	36,000	129,996	1,575,258
<b>Increase (Decrease) in Cash and Investments:</b>		<b>981</b>	<b>46,785</b>	<b>28,227</b>	<b>1,414,757</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	174,886	76,233	91,331	4,665,185
<b>Total Ending Cash and Investments</b>		<b>174,886</b>	<b>76,233</b>	<b>91,331</b>	<b>4,665,185</b>

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 Ended December 31, 2019**

		412 Solid Waste Operations Fund	425 Stormwater Operations	501 Equipment Replacement Fund	505 Public Works Facility Fund
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	407,751	148,742	399,672	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	24,999	-	-
340	Charges for Goods and Services	2,756,467	850,560	82,335	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	17,922	11,456	15,570	-
Total Revenues:		2,774,389	887,015	97,905	-
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	2,466,111	758,498	-	-
540	Transportation	-	-	82,335	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,466,111	758,498	82,335	-
Excess (Deficiency) Revenues over Expenditures:		308,278	128,517	15,570	-
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	876,012	177,999
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	2,023	-	13,093	-
381, 382, 395, 398	Other Resources	-	1,625	84,468	-
Total Other Increases in Fund Resources:		2,023	1,625	973,573	177,999
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	9,700	28,963	160,495	-
591-593, 599	Debt Service	-	1,943	-	-
597	Transfers-Out	267,548	85,620	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	3,844	-	5,813	-
581, 582	Other Uses	-	15,400	-	-
Total Other Decreases in Fund Resources:		281,092	131,926	166,308	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>29,209</b>	<b>(1,784)</b>	<b>822,835</b>	<b>177,999</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	436,961	146,955	1,222,507	177,999
<b>Total Ending Cash and Investments</b>		<b>436,961</b>	<b>146,955</b>	<b>1,222,507</b>	<b>177,999</b>

The accompanying notes are an integral part of this statement.

**City of Sedro-Woolley**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

	<b>Total for All Funds (Memo Only)</b>	<b>Custodial</b>
308	Beginning Cash and Investments	1,161
388 & 588	Net Adjustments	-
310-390	Additions	246,869
510-590	Deductions	248,030
	Net Increase (Decrease) in Cash and Investments:	(1,161)
508	Ending Cash and Investments	-

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

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

The City of Sedro-Woolley was incorporated in December 1898. On September 3, 2007 the City became a Non-charter Code City pursuant to the Optional Municipal Code of the State of Washington, retaining the Mayor-Council plan of government. The City operates under the laws of the state of Washington applicable to a Non-Charter Code City. The city is a general purpose government and provides police and fire protection, including emergency medical response services, engineering, street and arterial construction and maintenance, parks and recreation services, a public library and general administrative services. In addition, the city owns and operates a cemetery, a sewer system, a solid waste collection service, and a storm water management system.

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

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

a. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The City of Sedro-Woolley'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 unless required to be rolled up into a single fund for reporting purposes. 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 (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. For clarity in financial reporting, 101 Parks Operations Fund and 107 Parks Reserve Fund are rolled into 001 Current Expense Fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Sedro-Woolley.

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. For clarity in financial reporting, 206 G/O Bond 2008 Reserve Fund is rolled up into 205 2008 G/O Bond Fund.

### Capital Projects Funds

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

### PROPRIETARY FUND TYPES:

#### Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. The following sewer proprietary funds are rolled into 401 Sewer Funds for clarity in financial reporting: 401 Sewer Operations, 402 Facilities Reserve, 407 Revenue Bond, 410 Capital Projects Reserve and 411 Revenue Bond Reserve. In addition, 412 Solid Waste Operations and 413 Solid Waste Reserve are rolled into 412 Solid Waste Operations Fund. Finally, 425 Stormwater Operations and 426 Stormwater Reserve are rolled into 425 Stormwater Operations Fund.

#### Internal Service Funds

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

### 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.

#### Custodial Funds

These funds are used to account for assets that the City of Sedro-Woolley 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 only when cash is received and expenditures are recognized when paid.

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

#### c. Budgets

The City of Sedro-Woolley adopts annual appropriated budgets for all funds except the Municipal Court Trust. These budgets are adopted at the fund level for all funds. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

Council approved budget amendments during 2019 primarily related to awarding of grants, asset purchases as well as other changes of a more routine nature.

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

Fund	Final Appropriated Amounts	Actual Expenditures	Variance Under/(Over)
001 Current Expense Fund	\$9,039,398	\$7,424,082	\$1,615,316
101 Parks & Facilities Fund	1,692,517	968,172	724,345
102 Cemetery Fund	212,162	133,782	78,380
103 Street Fund	995,919	816,169	179,750
104 Arterial Street Fund	2,808,005	1,287,731	1,520,274
105 Library Fund	442,209	309,672	132,537
106 Cemetery Endowment Fund	63,321	5,000	58,321
107 Parks Reserve Fund	1,128	0	1,128
108 Lodging Tax Fund	46,014	29,576	16,438
109 Special Investigation Fund	37,185	3,000	34,185
112 Code Enforcement Fund	64,294	0	64,294
113 Paths And Trails Fund	6,509	0	6,509
114 Law Enforcement Sales Tax	550,000	527,347	22,653
115 City Council Strategic Reserve	489,204	115,557	373,647
205 2008 G/O Bond Fund	261,549	250,550	10,999
206 G/O Bond 2008 Reserve Fund	150,000	0	150,000
230 1996 G/O Bond Redemption Fund	6,383	6,383	0
301 1st 1/4% Real Estate Excise Tax Fund	350,247	0	350,247
302 2nd 1/4% Real Estate Excise Tax	1,203,813	276,829	926,984
303 Building Maintenance Reserve	144,006	37,263	106,743
304 Transportation Benefit District	225,936	200,000	25,936
305 Library Construction Fund	8,145,906	2,254,950	5,890,956
310 Police Mitigation Reserve Fund	43,307	5,000	38,307
311 Parks Impact Fee Reserve Fund	213,405	111,549	101,856
312 Fire Impact Fee Reserve Fund	83,623	36,000	47,623
313 Public Safety Sales Tax Fund	193,104	129,996	63,108
314 Transportation Impact Fee Reserve	341,602	0	341,602
401 Sewer Operations Fund	5,369,986	4,074,020	1,295,966
402 Sewer Facilities Reserve Fund	1,114,060	0	1,114,060
407 1998 Sewer Revenue Bond Fund	2,181	1,554	627
410 Sewer Capital Projects Reserve	2,789,622	615,804	2,173,818
411 1998 Sewer Rev Bond Res Fund	0	0	0
412 Solid Waste Operations Fund	3,003,749	2,866,202	137,547
413 Solid Waste Reserve Fund	285,474	0	285,474
425 Stormwater Operations	949,938	890,426	59,512
426 Stormwater Reserve Fund	68,382	0	68,382
501 Equipment Replacement Fund	1,355,127	248,643	1,106,484
505 Public Works Facility Fund	111,999	0	111,999
631 Suspense Fund	\$105,000	\$87,560	\$17,440

The Finance Director is authorized to transfer budgeted amounts 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 of Sedro-Woolley's legislative body.

d. Cash and Investments

See Note 2, Deposits and Investments.

e. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets and inventory of the City of Sedro-Woolley are recorded as capital expenditures when purchased.

f. Compensated Absences

Vacation leave may be accumulated up to 280 hours and is payable upon separation or retirement. In the unlikely event that all employees separated from employment at fiscal year end, the amount that would be due to employees to buy-out vested leave balances is \$399,024. Sick leave may be accumulated up to 1,440 hours. Upon separation employees do not receive payment for unused sick leave except upon retirement employees receive payment for 25% of unused sick leave. Payments are recognized as expenditures when paid.

g. Long-Term Debt

See Note 4, Debt Service Requirements.

h. Risk Management

The City is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2019, there are 191 members in the program.

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

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per occurrence self-insured retention (SIR) of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. Members are responsible for a \$1,000 to \$10,000 deductible for each claim, while the program is responsible for the \$100,000 retention. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the \$100,000 of the self-insured retention, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,910,871.

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

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

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

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

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

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2019, were \$2,687,104.78.

The City of Sedro-Woolley is also 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, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, 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 Trust 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 the 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.

i Reserved Portion of Ending Cash and Investments

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

Ending cash and investments which are reserved at year end are detailed below:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
G/O 2008 Bond Reserve Fund 205	\$150,000	USDA City Hall Bond Reserve

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Investments are reported at original cost, with interest earnings recorded when earned. Investments by type at December 31, 2019 are as follows:

Type of Investment	City of Sedro-Woolley's own investments	Investments held by as an agent for others	Total
Bank deposits	\$1,417,655	\$0	\$1,417,655
L.G.I.P.	9,840,465	0	9,840,465
US Bank Safekeeping	1,007,475	0	1,007,475
Skagit County Treasurer	57,009	0	57,009
Total	\$12,322,604	\$0	\$12,322,604

It is the City of Sedro-Woolley’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

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

**NOTE 3 - PROPERTY TAX**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month. Property tax revenues are recognized when cash is received by the City 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 2019 was \$1.9398 per \$1,000 on an assessed valuation of \$995,548,600 for a total regular levy of \$1,931,172.

**NOTE 4 – DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Sedro-Woolley and summarizes the City's debt transactions for the year ended December 31, 2019.

The combined debt service payment requirements for the City's USDA loan, revenue bonds, public works loans, and notes payable are as follows:

Year	Principal	Interest	Total
2020	\$641,567.59	\$121,833.95	\$763,401.54
2021	643,679.92	116,769.83	760,449.75
2022	645,879.36	111,618.58	757,497.94
2023	648,169.56	106,376.59	754,546.15
2024	650,554.20	101,040.14	751,594.34
2025-2029	1,886,935.93	427,963.80	2,314,899.73
2030-2034	416,558.37	336,190.38	752,748.75
2035-2039	509,860.00	242,888.75	752,748.75
2040-2044	624,059.52	128,689.23	752,748.75
2045-2049	169,639.79	10,374.31	180,014.09
Total	\$6,836,904.22	\$1,703,745.57	\$8,540,649.79

During 2019, the City arranged for long-term debt financing for the new regional library currently under construction, the amounts of which are not included in the above table as the bond proceeds have not been fully disbursed as of 12/31/2019. The bond, in an amount not to exceed \$5,150,000, will be a 20-year fixed rate single bond bearing on interest rate of 2.31%. The City will draw down the principal, as required, during the construction period with final closeout and principal determined at the completion of the construction project. As of December 31, 2019, the City had received loan draws in the amount of \$195,500 which are not reflected in the table above until final loan closing.

#### **NOTE 5 - PENSION PLANS**

Substantially all City of Sedro-Woolley full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) or Law Enforcement Officers and Fire Fighter's Retirement System (LEOFF) administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

The City of Sedro-Woolley also participates in the Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

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.

The City of Sedro-Woolley 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.

At June 30, 2019 (the measurement date of the plans), the City of Sedro-Woolley’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$162,982.61	0.02%	\$874,049.00
PERS 2/3	\$239,659.07	0.03%	\$285,030.00
VFFRPF-Fire	\$870.00	0.44%	(\$297,900.00)
VFFRPF-Police	\$60.00	0.03%	(\$20,545.00)
LEOFF 1	\$0.00	0.01%	(\$163,802.00)
LEOFF 2	\$111,668.09	0.06%	(\$1,403,151.00)

**NOTE 6 – INTERFUND LOANS**

The City utilized Resolution 850-11 authorizing short-term interfund loans from the Sewer Capital Projects Reserve Fund to the Arterial Streets Fund for cash flow purposes due to the timing of reimbursements for traffic projects, not to exceed \$1,000,000. Resolution 794-09 authorizes short-term interfund loans to maintain cash flow. Resolution 985-18 authorized an interfund loan in the amount of \$175,000 from the Sewer Capital Projects Reserve Fund to the General Fund to temporarily provide financing for the purchase of real estate. Resolution 991-18 authorized an interfund loan from the Capital Projects Reserve Fund to the Library Construction Fund to provide temporary cash flow funding during periods of time the City is waiting on reimbursement payments due from State grants.

The interest rate on all interfund loans equals the average of the Washington State Treasurer’s Local Government Investment Pool rate for the period which the loans are outstanding. The following table presents interfund loan activity during 2019:

Borrowing Fund	Lending Fund	Balance 1/1/2019	New Loans	Repayments	Balance 12/31/2019
General Fund #001	Sewer Capital Projects Reserve #410	\$145,760.76	\$0.00	\$145,760.76	\$0.00
Arterials Fund #104	Sewer Capital Projects Reserve #410	500,000.00	0.00	500,000.00	0.00
Library Construction Fund #305	Capital Projects Reserve Fund #302	474,372.54	0.00	474,372.54	0.00
Stormwater Fund #425	Sewer Capital Projects Reserve #410	85,248.33	0.00	15,400.00	69,848.33
General Fund #001	Sewer Capital Projects Reserve #410	300,000.00	0.00	0.00	300,000.00
Totals:		\$1,505,381.63	\$0.00	\$1,135,533.30	\$369,848.33

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Post-Employment Benefits**

The City of Sedro-Woolley has a commitment to pay for postemployment benefits for retired employees that belong to the LEOFF 1 retirement plan. These benefits include medical, vision, dental, hearing, and prescriptions. The City of Sedro-Woolley is the plan administrator for these benefits and is responsible for these types of expenses.

At December 31, 2019, the following classifications of employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>0</u>
Total	<u>6</u>

**Plan Description**

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a single employer defined benefit healthcare plan administered by the City. The plan, LEOFF Disability, covers the member’s necessary hospital, medical, vision, dental, and nursing care expenses not payable by worker’s compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by the City’s employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The City’s actual expenses were \$61,592 for the year ended December 31, 2019.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2019:

Aggregate OPEB Amounts	
OPEB Liabilities	\$2,459,106
Total OPEB Expense	\$182,192

**Actuarial Assumptions**

Utilizing the Office of the State Actuary’s (OSA) Alternative Measurement Method (AMM) Online Tool (Tool), the City used the alternative measurement method permitted under GASB 75. The OSA actuarial reports relied upon the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report.

<b>Methodology</b>	
Actuarial valuation date	06/30/2019
Actuarial measurement date	06/30/2019
Actuarial cost method	Entry age
Amortization method	Recognized immediately
Asset valuation method	N/A
<b>Assumptions</b>	
Discount rate <sup>(1)</sup>	
Beginning of measurement year	3.87%
End of measurement year	3.5%
Healthcare trend rates <sup>(2)</sup>	
Medical costs	Initial rate is about 6%, trends down to 5% in 2020s
Long-term care	4.5%
Medicare Part B premiums	Approximately 5% per year, varies by year.
Mortality rates (assumes 100% male population)	
Base mortality table	RP-2000 Mortality Table
Age setback	+1 year healthy/-2 years Disabled Blended 50%/50% Healthy/Disabled
Mortality improvements	100% Scale BB
Projection period	Generational
Medicare participation rate	100%

<sup>(1)</sup> Source: Bond Buyer General obligation 20-bond Municipal Index

<sup>(2)</sup> For additional detail on the healthcare trend rates, please see OSA’s 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report.

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 6.0%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.0%) or 1-percentage point higher (7.0%) that the current rate.

	<b>1% Decrease (5.0%)</b>	<b>Current Healthcare Cost Trend Rate (6.0%)</b>	<b>1% Increase (7.0%)</b>
Total OPEB Liability	\$2,229,638	\$2,459,106	\$2,727,937

The following presents the total OPEB liability of the City calculated using the discount rate of 3.5%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5%) or 1-percentage point higher (4.5%) that the current rate.

	<b>1% Decrease (2.5%)</b>	<b>Current Healthcare Cost Trend Rate (3.5%)</b>	<b>1% Increase (4.5%)</b>
Total OPEB Liability	\$2,240,771	\$2,459,106	\$2,708,902

Changes in the Total OPEB Liability:

<b>LEOFF 1</b>	
Total OPEB Liability at 1/1/2019	\$2,405,707
Service costs	0
Interest costs	90,632
Change in assumptions	91,560
Change in benefit terms	0
Estimated benefit payments	(128,793)
Other Changes	0
Total OPEB Liability at 12/31/2019	\$2,459,106
Covered employee payroll	\$0
TOL as a Percentage of Covered Payroll	N/A

Until a full 10-year trend is compiled, only information for those years available is presented. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

**NOTE 8 – OTHER DISCLOSURES**

**Jointly Governed Organizations:** The City of Sedro-Woolley along with the Cities of Anacortes, Burlington, Mount Vernon; Towns of Concrete, Hamilton, La Conner, Lyman; and Skagit County; Skagit PUD #1; Ports of Anacortes and Skagit County; Skagit Transit; Swinomish Tribal Community and the Samish Indian Nation are all members of the Skagit Council of Governments (SCOG). SCOG was created to provide opportunities of collaboration and cooperation between local government units as well as providing transportation and comprehensive land use planning. Members are assessed dues based upon a per capita ratio as determined by the SCOG Board of Directors. In the unlikely event that the members vote to dissolve the organization, the organization’s net assets are distributed to the member agencies.

**Joint Construction and Operations of a Regional Library**

Beginning February 18, 2018 library services are provided to Sedro-Woolley residents by contract with the Central Skagit Rural Partial County Library District (District). During the initial period of the agreement, the City and the District pay into Library Construction Fund a combined \$360,000 per year to be applied towards costs of the construction of a new library facility. Once permanent financing has been obtained for the cost of the facility, the city will pay an annual operations fee that equals the product of the City’s assessed valuation times the District’s millage rate, less the cost of the City’s annual debt service.

On June 5, 2019, the City completed financing for the construction of the new library facility through the issuance of a private placement bond purchased by Banner Bank. The bond, issued in an amount not to exceed \$5,150,000, has a maturity of twenty years, an interest rate of 2.31%, and retains the ability of the City to pay off the bond, in whole or in part, during the term of the bond. During construction, the City has the ability to draw down principal as needed for a period not to exceed 18 months from closing. Once final construction is complete, the total of the construction draws, representing the final principal of the bond, will be amortized over the life of the bond.

The City and the District are committed to a partnership that will last at least in excess of 20 years and includes the contracted services described above as well as the joint development and ownership of a new library. The new library, designed by SHKS Architects will be located at 100 W. State Street. The new library is expected to

open to the public in the spring of 2021. Additional information, including electronic copies of the interlocal agreements, are posted on the City's website.

### **Accounting and Reporting Changes**

Effective in the annual financial statements for 2019, the City implemented the following statements of the Governmental Accounting Standards Board (GASB):

GASB 75 - This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

### **Subsequent Events:**

#### COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. Accordingly, the Governor of the State of Washington declared a health emergency and issued an order to close all nonessential businesses until further notice. As a municipal corporation, many of the City's functions are deemed to be an essential business. Nonetheless, out of concern for our workers and pursuant to the government order, the City has reduced the scope of its operations and where possible, certain workers are telecommuting from their homes. While the City expects this matter to negatively impact its results of operations, cash flows and financial position, the related impact cannot be reasonably estimated at this time.

**City of Sedro-Woolley  
Schedule of Liabilities  
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
251.11	LTGO Bond, 2019	12/1/2039	-	195,500	-	195,500
263.81	USDA Loan #56029**127697 02	8/28/2048	2,457,469	-	118,968	2,338,501
<b>Total General Obligation Debt/Liabilities:</b>			<b>2,457,469</b>	<b>195,500</b>	<b>118,968</b>	<b>2,534,001</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		366,035	32,989	-	399,024
263.88	PWTF Loan #PW-05-691-PRE-105	6/1/2025	267,945	-	38,278	229,667
263.88	PWTF Loan #PWTF-258460	6/1/2026	2,800,000	-	350,000	2,450,000
263.88	PWTF Loan #PWTF-256894	6/1/2028	2,020,819	-	202,082	1,818,737
264.30	Net Pension Liability		1,504,448	-	345,369	1,159,079
264.40	OPEB Liability		-	2,459,106	-	2,459,106
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>6,959,247</b>	<b>2,492,095</b>	<b>935,729</b>	<b>8,515,613</b>
<b>Total Liabilities:</b>			<b>9,416,716</b>	<b>2,687,595</b>	<b>1,054,697</b>	<b>11,049,614</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>