



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Sedro-Woolley

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

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

January 27, 2022

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

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, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 19, 2022.

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 8 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown.

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.



Pat McCarthy, State Auditor

Olympia, WA

January 19, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Sedro-Woolley January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 9.

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, 2020, 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, 2020, 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 8 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. 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 19, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

January 19, 2022

FINANCIAL SECTION

City of Sedro-Woolley January 1, 2020 through December 31, 2020

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2020

City of Sedro-Woolley
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		<u>Total for All Funds (Memo Only)</u>	<u>001 Current Expense Fund</u>	<u>102 Cemetery Fund</u>	<u>103 Street Fund</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	12,322,607	1,945,011	76,894	173,231
388 / 588	Net Adjustments	-	(1,090,333)	-	-
Revenues					
310	Taxes	8,273,921	5,289,806	92,712	551,504
320	Licenses and Permits	341,383	341,383	-	-
330	Intergovernmental Revenues	4,329,512	2,707,319	-	230,195
340	Charges for Goods and Services	10,151,070	1,338,170	92,786	100
350	Fines and Penalties	59,241	59,141	-	-
360	Miscellaneous Revenues	648,933	43,879	856	1,272
Total Revenues:		<u>23,804,060</u>	<u>9,779,698</u>	<u>186,354</u>	<u>783,071</u>
Expenditures					
510	General Government	1,229,365	1,229,365	-	-
520	Public Safety	6,254,558	5,722,810	-	-
530	Utilities	5,649,635	-	114,631	-
540	Transportation	674,340	-	-	575,986
550	Natural/Economic Environment	265,312	251,574	-	-
560	Social Services	32,994	32,994	-	-
570	Culture and Recreation	863,628	678,893	-	-
Total Expenditures:		<u>14,969,832</u>	<u>7,915,636</u>	<u>114,631</u>	<u>575,986</u>
Excess (Deficiency) Revenues over Expenditures:		8,834,228	1,864,062	71,723	207,085
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	4,954,500	-	-	-
397	Transfers-In	2,444,281	150,961	5,000	70,770
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	714,300	18,470	-	-
Total Other Increases in Fund Resources:		<u>8,113,081</u>	<u>169,431</u>	<u>5,000</u>	<u>70,770</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	8,683,125	915,753	6,218	78,574
591-593, 599	Debt Service	1,024,716	3,720	-	-
597	Transfers-Out	2,444,281	520,750	11,000	73,000
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	617,714	(4,340)	-	-
Total Other Decreases in Fund Resources:		<u>12,769,836</u>	<u>1,435,883</u>	<u>17,218</u>	<u>151,574</u>
Increase (Decrease) in Cash and Investments:		<u>4,177,473</u>	<u>597,610</u>	<u>59,505</u>	<u>126,281</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	2,658,439	3,902	-	-
50841	Committed	93,492	-	-	-
50851	Assigned	12,578,436	278,668	136,401	299,510
50891	Unassigned	1,169,719	1,169,719	-	-
Total Ending Cash and Investments		<u>16,500,086</u>	<u>1,452,289</u>	<u>136,401</u>	<u>299,510</u>

City of Sedro-Woolley
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		104 Arterial Street Fund	105 Library Fund	106 Cemetery Endowment Fund	108 Lodging Tax Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	574,087	149,707	58,621	20,993
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	469,861	-	23,133
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,194,548	-	-	-
340	Charges for Goods and Services	40,102	-	5,500	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,985	12,928	-	176
Total Revenues:		1,238,635	482,789	5,500	23,309
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	8,455	-	-	-
550	Natural/Economic Environment	-	-	-	13,738
560	Social Services	-	-	-	-
570	Culture and Recreation	-	171,019	-	-
Total Expenditures:		8,455	171,019	-	13,738
Excess (Deficiency) Revenues over Expenditures:		1,230,180	311,770	5,500	9,571
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	116,402	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	300,000	-	-	-
Total Other Increases in Fund Resources:		416,402	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,469,557	6,964	-	-
591-593, 599	Debt Service	104	238,814	-	-
597	Transfers-Out	203,477	-	5,000	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	300,000	-	-	-
Total Other Decreases in Fund Resources:		1,973,138	245,778	5,000	-
Increase (Decrease) in Cash and Investments:		(326,556)	65,992	500	9,571
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	30,564
50841	Committed	-	-	-	-
50851	Assigned	247,533	215,701	59,121	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		247,533	215,701	59,121	30,564

City of Sedro-Woolley
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

	109 Special Investigation Fund	112 Code Enforcement Fund	113 Paths And Trails Fund	114 Law Enforcement Sales Tax	
Beginning Cash and Investments					
308	Beginning Cash and Investments	27,826	109,961	6,610	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	526,235
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	1,077	-
340	Charges for Goods and Services	-	100	-	-
350	Fines and Penalties	-	100	-	-
360	Miscellaneous Revenues	24,297	760	48	-
	Total Revenues:	24,297	960	1,125	526,235
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	5,513	-	-	526,235
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
	Total Expenditures:	5,513	-	-	526,235
	Excess (Deficiency) Revenues over Expenditures:	18,784	960	1,125	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
	Total Other Increases in Fund Resources:	-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
	Total Other Decreases in Fund Resources:	-	-	-	-
	Increase (Decrease) in Cash and Investments:	18,784	960	1,125	-
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	46,610	-	7,735	-
50841	Committed	-	-	-	-
50851	Assigned	-	110,921	-	-
50891	Unassigned	-	-	-	-
	Total Ending Cash and Investments	46,610	110,921	7,735	-

City of Sedro-Woolley
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		115 City Council Strategic Reserve	205 2008 G/O Bond Fund	301 1st 1/4% Real Estate Excise Tax	302 2nd 1/4% Real Estate Excise Tax
Beginning Cash and Investments					
308	Beginning Cash and Investments	377,969	155,418	-	975,593
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	172,621	79,764	344,073	344,073
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	428	254	567	4,820
Total Revenues:		<u>173,049</u>	<u>80,018</u>	<u>344,640</u>	<u>348,893</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	10,000	-	-	-
Total Expenditures:		<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		<u>163,049</u>	<u>80,018</u>	<u>344,640</u>	<u>348,893</u>
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	86,750	489,923	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>-</u>	<u>86,750</u>	<u>489,923</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	150,550	-	-
597	Transfers-Out	50,000	-	101,609	591,532
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>50,000</u>	<u>150,550</u>	<u>101,609</u>	<u>591,532</u>
Increase (Decrease) in Cash and Investments:		<u>113,049</u>	<u>16,218</u>	<u>732,954</u>	<u>(242,639)</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	171,636	732,954	732,954
50841	Committed	-	-	-	-
50851	Assigned	491,018	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		<u>491,018</u>	<u>171,636</u>	<u>732,954</u>	<u>732,954</u>

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, 2020

	303 Building Maintenance Reserve	304 Transportation Benefit District	305 Library Construction Fund	310 Police Mitigation Reserve Fund	
Beginning Cash and Investments					
308	Beginning Cash and Investments	109,251	45,094	472,300	51,983
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	216,572	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	190,810	-
340	Charges for Goods and Services	-	-	209,722	8,212
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,907	141	-	368
Total Revenues:		2,907	216,713	400,532	8,580
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	3,716	-
Total Expenditures:		-	-	3,716	-
Excess (Deficiency) Revenues over Expenditures:		2,907	216,713	396,816	8,580
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	4,954,500	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	4,954,500	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	5,063,116	-
591-593, 599	Debt Service	-	-	16,426	-
597	Transfers-Out	18,666	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		18,666	-	5,079,542	-
Increase (Decrease) in Cash and Investments:		(15,759)	216,713	271,774	8,580
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	261,807	-	-
50841	Committed	93,492	-	-	-
50851	Assigned	-	-	744,073	60,563
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		93,492	261,807	744,073	60,563

City of Sedro-Woolley
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		311 Parks Impact Fee Reserve Fund	312 Fire Impact Fee Reserve Fund	313 Public Safety Sales Tax Fund	314 Transportation Impact Fee
Beginning Cash and Investments					
308	Beginning Cash and Investments	174,886	76,233	91,331	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	163,567	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	63,000	35,180	-	121,018
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,240	571	108	-
Total Revenues:		<u>64,240</u>	<u>35,751</u>	<u>163,675</u>	<u>121,018</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		<u>64,240</u>	<u>35,751</u>	<u>163,675</u>	<u>121,018</u>
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	203,477
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>-</u>	<u>-</u>	<u>-</u>	<u>203,477</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	34,249	-	135,000	82,000
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>34,249</u>	<u>-</u>	<u>135,000</u>	<u>82,000</u>
Increase (Decrease) in Cash and Investments:		<u>29,991</u>	<u>35,751</u>	<u>28,675</u>	<u>242,495</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	204,877	111,984	-	242,495
50841	Committed	-	-	-	-
50851	Assigned	-	-	120,005	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		<u>204,877</u>	<u>111,984</u>	<u>120,005</u>	<u>242,495</u>

City of Sedro-Woolley
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		<u>401 Sewer Operations Fund</u>	<u>412 Solid Waste Operations Fund</u>	<u>425 Stormwater Operations</u>	<u>501 Equipment Replacement Fund</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	4,665,185	436,962	146,955	1,222,507
388 / 588	Net Adjustments	815,128	-	275,205	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	2,671	2,154	-	738
340	Charges for Goods and Services	4,213,601	3,004,747	928,934	89,898
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	523,651	8,815	7,066	9,523
Total Revenues:		<u>4,739,923</u>	<u>3,015,716</u>	<u>936,000</u>	<u>100,159</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	2,519,849	2,502,444	512,711	-
540	Transportation	-	-	-	89,899
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>2,519,849</u>	<u>2,502,444</u>	<u>512,711</u>	<u>89,899</u>
Excess (Deficiency) Revenues over Expenditures:		<u>2,220,074</u>	<u>513,272</u>	<u>423,289</u>	<u>10,260</u>
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	1,031,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	315,342	7,387	-	73,101
Total Other Increases in Fund Resources:		<u>315,342</u>	<u>7,387</u>	<u>-</u>	<u>1,104,101</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	404,250	85	16,110	722,498
591-593, 599	Debt Service	614,659	-	443	-
597	Transfers-Out	114,670	373,088	130,240	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	300,000	6,712	15,342	-
Total Other Decreases in Fund Resources:		<u>1,433,579</u>	<u>379,885</u>	<u>162,135</u>	<u>722,498</u>
Increase (Decrease) in Cash and Investments:		<u>1,101,837</u>	<u>140,774</u>	<u>261,154</u>	<u>391,863</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	6,582,152	577,737	683,314	1,614,371
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		<u>6,582,152</u>	<u>577,737</u>	<u>683,314</u>	<u>1,614,371</u>

City of Sedro-Woolley
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		505 Public Works Facility Fund
Beginning Cash and Investments		
308	Beginning Cash and Investments	177,999
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	273
Total Revenues:		273
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		-
Excess (Deficiency) Revenues over Expenditures:		273
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	289,998
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		289,998
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		-
Increase (Decrease) in Cash and Investments:		290,271
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	468,269
50891	Unassigned	-
Total Ending Cash and Investments		468,269

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, 2020

		<u>Custodial</u>
308	Beginning Cash and Investments	-
388 & 588	Net Adjustments	-
310-390	Additions	69,231
510-590	Deductions	68,597
	Net Increase (Decrease) in Cash and Investments:	<u>634</u>
508	Ending Cash and Investments	634

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 presented using classifications that are similar to the ending balance classification in GAAP.

a. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The 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 Fund 101 Parks Operations and Fund 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, Fund 206 G/O Bond 2008 Reserve Fund is rolled up into Fund 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.

Private-Purpose Trust Funds

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

Custodial Funds

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

b. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized 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 2020 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 Expenses	Variance
001 - Current Expense Fund	\$12,438,785	\$8,148,909	\$4,289,876
101 - Parks & Facilities Fund	\$1,562,458	\$1,202,607	\$359,851
102 - Cemetery Fund	\$229,156	\$131,847	\$97,309
103 - Street Fund	\$1,062,640	\$727,562	\$335,078
104 - Arterial Street Fund	\$3,087,793	\$1,981,591	\$1,106,202
105 - Library Fund	\$571,586	\$416,796	\$154,790
106 - Cemetery Endowment Fund	\$61,121	\$5,000	\$56,121
107 - Parks Reserve Fund	\$1,257	\$0	\$1,257
108 - Lodging Tax Fund	\$49,893	\$13,738	\$36,155
109 - Special Investigation Fund	\$52,126	\$5,513	\$46,613
112 - Code Enforcement Fund	\$116,461	\$0	\$116,461
113 - Paths And Trails Fund	\$7,940	\$0	\$7,940
114 - Law Enforcement Sales Tax Fund	\$530,000	\$526,235	\$3,765
115 - City Council Strategic Reserve	\$530,219	\$60,000	\$470,219
205 - 2008 G/O Bond Fund	\$355,968	\$150,550	\$205,418
301 - 1st 1/4% Real Estate Excise Tax Fund	\$639,500	\$101,609	\$537,891
302 - 2nd 1/4% Real Estate Excise Tax Fund	\$1,169,593	\$591,532	\$578,061
303 - Building Maintenance Reserve Fund	\$112,951	\$18,666	\$94,285
304 - Transportation Benefit District Fund	\$272,894	\$0	\$272,894
305 - Library Construction Fund	\$6,986,067	\$5,083,259	\$1,902,808
310 - Police Mitigation Reserve Fund	\$57,233	\$0	\$57,233
311 - Parks Impact Fee Reserve Fund	\$217,886	\$34,249	\$183,637
312 - Fire Impact Fee Reserve Fund	\$100,583	\$0	\$100,583
313 - Public Safety Sales Tax Fund	\$226,331	\$135,000	\$91,331
314 - Transportation Impact Fee Reserve Fund	\$263,477	\$82,000	\$181,477
401 - Sewer Operations Fund	\$5,554,721	\$2,839,807	\$2,714,914
402 - Sewer Facilities Reserve Fund	\$1,285,992	\$1,283,003	\$2,989
407 - 1998 Sewer Revenue Bond Fund	\$2,493	\$2,395	\$98
410 - Sewer Capital Projects Reserve Fund	\$5,140,368	\$912,852	\$4,227,516
412 - Solid Waste Operations Fund	\$3,128,504	\$3,001,327	\$127,177

413 - Solid Waste Reserve Fund	\$410,282	\$0	\$410,282
425 - Stormwater Operations Fund	\$1,063,881	\$399,641	\$664,240
426 - Stormwater Reserve Fund	\$70,841	\$0	\$70,841
501 - Equipment Replacement Fund	\$2,332,702	\$812,398	\$1,520,304
505 - Public Works Facility Fund	\$402,997	\$0	\$402,997
635 - Custodial Fund	\$176,500	\$68,597	\$107,903

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.

During 2020, the City recorded a material prior period adjustment which is reflected in the Actual Expenses column of the schedule above. For more details on this prior period adjustment, please see Note 8.

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 are \$453,006. 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, Long Term Debt

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, 2020, there are 193 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 the 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 \$2,147,814.

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 that is part of a \$25,000 self-insured retention. The CIAW is responsible for the \$15,000 balance.

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, 2020, were \$2,651,954

The City 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, 2020, 262 cities/towns/non-city entities participate in the AWC Trust HCP. The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC 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 Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by City Council. When expenditures that meet restrictions are incurred, the City intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of:

General Fund Restricted-\$3,902
RCW 82.14.530, Affordable Housing Sales tax

Lodging Tax Fund Restricted - \$30,564
RCW 67.28-1815, Hotel Motel tax

Special Investigation Fund Restricted - \$46,610
RCW 10.105.010, Drug Seizure Account

Paths and Trails Fund Restricted - \$7,735
Restricted to Non-Motorized Transportation Improvements

2008 G/O Bond Fund - \$171,636
USDA City Hall Bond Reserve

1st ¼% Real Estate Excise Tax Fund – \$732,954
RCW 82.46.010 Real Estate Excise Tax 1

2nd ¼% Real Estate Excise Tax Fund – \$732,954
RCW 82.46.035 Real Estate Excise Tax 2

Transportation Benefit District Fund-\$261,807
RCW 36.73 Transportation Benefit Districts

Parks Impact Fee Reserve Fund-\$204,877
RCW 82.02.050 Impact Fees

Fire Impact Fee Reserve Fund - \$111,984
RCW 82.02.050 Impact Fees

Transportation Impact Fee- \$242,495
RCW 82.02.050 Impact Fees

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments are reported at original cost, with interest earnings recorded when earned. Investments by type at December 31, 2020 are as follows:

Type of Deposit or Investment	City of Sedro-Woolley's own investments	Investments held by the City as an agent for others	Total
Bank deposits	\$2,135,511	\$633	\$2,136,144
Local Government Investment Pool	13,200,457	0	13,200,457
US Bank Safekeeping	1,004,790	0	1,004,790
Other deposits	159,959	0	159,959
Total	\$16,500,717	\$633	\$16,501,350

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.

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 2020 was a weighted average \$2.4868 per \$1,000 on an assessed valuation of \$1,132,107,223 for a total regular levy of \$2,817,337.

NOTE 4 – LONG TERM DEBT

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, 2020.

The combined debt service payment requirements for the City’s 2019 Bond, USDA loan, and public works trust fund loans are as follows:

Year	Principal	Interest	Total
2021	\$841,511.56	\$271,855.17	\$1,113,366.73
2022	850,099.57	260,315.01	1,110,414.58
2023	858,985.48	248,477.49	1,107,462.97
2024	868,179.31	236,332.09	1,104,511.40
2025	877,691.28	223,868.05	1,101,559.33
2026-2030	2,547,545.01	933,844.34	3,481,389.35
2031-2035	1,883,837.11	633,493.34	2,517,330.45
2036-2040	1,878,049.82	286,364.65	2,164,414.47
2041-2045	519,621.33	52,893.61	572,514.95

Total	\$11,125,520.48	\$3,147,443.75	\$14,272,964.23
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During 2021, the City completed long-term debt financing with Banner Bank for the new regional library currently under construction. The bond proceeds have been fully disbursed as of 12/31/2020. The bond, in the issue amount of \$5,150,000, is a 20-year fixed rate single bond bearing on interest rate of 3.21%.

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.

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.

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, 2020, 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	\$168,449.00	0.02%	\$820,603.00
PERS 2/3	\$278,830.57	0.03%	\$387,098.00
VFFRPF-Fire	\$960.00	0.49%	(\$174,159)
VFFRPF-Police	\$0.00	0.03%	\$0.00
LEOFF 1	\$0.00	0.01%	(\$160,070.00)
LEOFF 2	\$135,302.98	0.07%	(\$1,410,885.00)

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

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 2020:

Borrowing Fund	Lending Fund	Balance 1/1/2020	New Loans	Repayments	Balance 12/31/2020
Arterials Fund #104	Sewer Capital Projects Reserve #410	\$0.00	\$300,000	\$300,000	\$0.00
Stormwater Fund #425	Sewer Capital Projects Reserve #410	69,848	0	15,342	54,507
General Fund #001	Sewer Capital Projects Reserve #410	300,000.00	0	0	300,000
Totals:		\$369,848	\$300,000	\$315,342	\$354,507

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, 2020, the following classifications of employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>0</u>
Total	<u>5</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 \$65,554 for the year ended December 31, 2020.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2020:

Aggregate OPEB Amounts	
OPEB Liabilities	\$2,472,807
Total OPEB Expense	\$137,066

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.

Methodology	
Actuarial valuation date	06/30/2020
Actuarial measurement date	06/30/2020
Actuarial cost method	Entry age
Amortization method	Recognized immediately
Asset valuation method	N/A
Assumptions	
Discount rate ⁽¹⁾	
Beginning of measurement year	3.50%
End of measurement year	2.21%
Healthcare trend rates ⁽²⁾	
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%

⁽¹⁾ Source: Bond Buyer General obligation 20-bond Municipal Index

⁽²⁾ For additional detail on the healthcare trend rates, please see OSA's 2018 LEOFF I Medical Benefits Actuarial Valuation Report.

The following presents the total OPEB liability sensitivity analysis of the City calculated using both the current Discount Rate and the Healthcare Cost Trend Rate, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher:

	1% Decrease	Value at Trend Rate	1% Increase
Discount Rate	\$2,763,426	\$2,472,807	\$2,225,569
Healthcare Trend	\$2,238,218	\$2,472,807	\$2,741,620

Schedule of Changes in the Total OPEB Liability:

LEOFF 1	
Total OPEB Liability at 1/1/2020	\$2,459,106
Service costs	0
Interest costs	83,928
Change in assumptions	53,138
Change in benefit terms	0
Estimated benefit payments	(\$123,365)
Other Changes	0
Total OPEB Liability at 12/31/2020	\$2,472,807

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.

Accounting and Reporting Changes

Effective in the annual financial statements for 2020, 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.

Prior Period Adjustments

The City of Sedro-Woolley utilizes an indirect cost allocation plan to charge applicable overhead costs to user funds which benefit from administrative-type services. During the years 2015 through 2019, the City allocated costs attributable to the fire department’s confined space rescue program to both the Sewer Fund 401 and the Stormwater Fund 425. However, the amount of the allocation was based on a program staffing level methodology cost base rather than simply charging the two funds for any costs based on actual use of the program. Accordingly, the City has recorded a prior period adjustment to correct the previously overstated allocation charges. The effect of the prior period adjustment is a \$815,128 refund to the Sewer Fund 401, and a \$275,205 refund to the Stormwater Fund 425 – with both adjustments being paid from the General Fund 001.

Subsequent Events:

COVID-19 Pandemic

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

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 implemented internal policies regarding the requirement of all staff to wear masks and to follow social distancing protocols.

While the City initially expected this matter to negatively impact the City's results of operations, cash flows and financial position, the related impact has been mild to date; however future impacts cannot be reasonably estimated at this time.

**City of Sedro-Woolley
Schedule of Liabilities
For the Year Ended December 31, 2020**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	LTGO Bond, 2019	12/1/2039	195,500	4,954,500	187,602	4,962,398
263.51	SBA Structures Lease-20 year	5/1/2040	-	126,250	3,615	122,635
263.81	USDA Loan #56029**127697 02	8/28/2048	2,338,501	-	83,423	2,255,078
Total General Obligation Debt/Liabilities:			2,534,001	5,080,750	274,640	7,340,111
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		399,024	53,982	-	453,006
263.88	PWTF Loan #PW-05-691-PRE-105	6/1/2025	229,667	-	38,278	191,389
263.88	PWTF Loan #PW-06-962-038	6/1/2026	2,450,000	-	350,000	2,100,000
263.88	PWTF Loan #PC08-951-039	6/1/2028	1,818,737	-	202,082	1,616,655
264.30	Net Pension Liability		1,159,079	48,622	-	1,207,701
264.40	OPEB Liability		2,459,106	13,701	-	2,472,807
Total Revenue and Other (non G.O.) Debt/Liabilities:			8,515,613	116,305	590,360	8,041,558
Total Liabilities:			11,049,614	5,197,055	865,000	15,381,669

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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- Toll-free Citizen Hotline:
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- Email:
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