

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Sedro-Woolley
Skagit County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 75258

Issue Date
September 15, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 15, 2008

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Sedro-Woolley's financial statements and compliance with federal laws and regulations.

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Skagit County
January 1, 2007 through December 31, 2007**

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Federal Summary

City of Sedro-Woolley Skagit County January 1, 2007 through December 31, 2007

The results of our audit of the City of Sedro-Woolley are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.766	Community facilities loans and grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

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

**City of Sedro-Woolley
Skagit County
January 1, 2007 through December 31, 2007**

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

We have audited the financial statements of the City of Sedro-Woolley, Skagit County, Washington, as of and for the year ended December 31, 2007, and have issued our report thereon dated September 3, 2008.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

September 3, 2008

Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Sedro-Woolley
Skagit County
January 1, 2007 through December 31, 2007**

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

COMPLIANCE

We have audited the compliance of the City of Sedro-Woolley, Skagit County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

September 3, 2008

Independent Auditor's Report on Financial Statements

City of Sedro-Woolley Skagit County January 1, 2007 through December 31, 2007

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

We have audited the accompanying financial statements of the City of Sedro-Woolley, Skagit County, Washington, for the year ended December 31, 2007. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Sedro-Woolley, for the year ended December 31, 2007, on the basis of accounting described in Note 1.

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

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Debt is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information has been

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 3, 2008

Financial Section

**City of Sedro-Woolley
Skagit County
January 1, 2007 through December 31, 2007**

FINANCIAL STATEMENTS

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Schedule of Long-Term Debt – 2007
Schedule of Expenditures of Federal Awards – 2007
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CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

BARS CODE	General/Special Revenue Fund	Fund Number and Name 001 Current Expense		Fund Number and Name 104 Arterial Streets	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 1,437,494	\$ 1,438,022	\$ 1,215,296	\$ 1,257,798
Revenues and Other Sources:					
310	Taxes	2,688,250	2,959,663	0	0
320	Licenses and Permits	228,225	198,663	0	0
330	Intergovernmental	392,140	432,613	510,000	117,984
340	Charges for Goods and Services	201,530	154,048	200,000	230,999
350	Fines and Forfeits	45,050	82,785	0	0
360	Miscellaneous	68,550	82,144	30,000	101,814
390	Other Financing Sources	249,285	266,959	0	
	Total Revenues and Other Source	3,873,030	4,176,875	740,000	450,797
	Total Resources	5,310,524	5,614,897	1,955,296	1,708,595
Operating Expenditures:					
510	General Government	636,471	517,866	0	0
520	Security of Persons & Property	3,079,218	2,848,391	0	0
530	Physical Environment	413,590	399,871	0	0
540	Transportation	0	0	0	0
550	Economic Environment	264,883	241,247	3,722	3,722
560	Mental & Physical Health	21,265	18,424	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	4,415,427	4,025,799	3,722	3,722
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	489,865	321,306	1,070,000	134,423
	Total Expenditures	4,905,292	4,347,105	1,073,722	138,145
597-599	Other Financing Uses	9,485	9,485	0	0
	Total Expenditures and Other Use	4,914,777	4,356,590	1,073,722	138,145
Excess (Deficit) of Resources Over Uses		395,747	1,258,307	881,574	1,570,450
380	Nonrevenues (Except 384)	15,300	5,256	0	0
580	Nonexpenditures (Except 584)	1,400	1,587	0	0
Ending Net Cash and Investments		\$ 409,647	\$ 1,261,976	\$ 881,574	\$ 1,570,450

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

BARS CODE	Special Revenue Funds	Fund Number and Name 105 Library		Fund Number and Name 110 Public Lands	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 33,809	\$ 35,648	\$ 196,588	\$ 181,853
Revenues and Other Sources					
310	Taxes	242,000	242,000	834,000	834,000
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	18,523	10,268	272,800	271,236
340	Charges for Goods and Services	6,000	6,671	195,250	165,951
350	Fines and Forfeits	3,500	4,803	0	0
360	Miscellaneous	4,500	7,365	75,000	78,118
390	Other Financing Sources	0	0	319,500	205,323
Total Revenues and Other Sources		274,523	271,107	1,696,550	1,554,628
Total Resources		308,332	306,755	1,893,138	1,736,481
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	906,765	859,106
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	235,670	233,061	349,600	292,408
Total Operating Expenditures		235,670	233,061	1,256,365	1,151,514
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	49,423	51,681	355,400	274,704
Total Expenditures		285,093	284,742	1,611,765	1,426,218
597-599	Other Financing Uses	0	0	141,000	141,000
Total Expenditures and Other Uses		285,093	284,742	1,752,765	1,567,218
Excess (Deficit) of Resources Over Uses		23,239	22,014	140,373	169,263
380	Nonrevenues (Except 384)	0	0	0	4,400
580	Nonexpenditures (Except 584)	0	0	8,000	8,000
Ending Net Cash and Investments		\$ 23,239	\$ 22,014	\$ 132,373	\$ 165,663

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

BARS CODE	Capital Project Funds	Fund Number and Name 302 Capital Outlay		Fund Number and Name 331 City Hall Construction	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 1,317,699	\$ 1,123,409	\$ -	\$ -
Revenues and Other Sources					
310	Taxes	520,000	554,067	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	35,000	62,555	0	11,308
390	Other Financing Sources	0	0	0	0
Total Revenues and Other Sources		555,000	616,622	0	11,308
Total Resources		1,872,699	1,740,031	0	11,308
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
Total Operating Expenditures		0	0	0	0
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	53,000	142,732	3,800,000	2,622,367
Total Expenditures		53,000	142,732	3,800,000	2,622,367
597-599	Other Financing Uses	765,500	718,155	0	0
Total Expenditures and Other Uses		818,500	860,887	3,800,000	2,622,367
Excess (Deficit) of Resources Over Uses		1,054,199	879,144	-3,800,000	-2,611,059
380	Nonrevenues (Except 384)	0	0	3,800,000	2,718,102
580	Nonexpenditures (Except 584)	0	0	0	0
Ending Net Cash and Investments		\$ 1,054,199	\$ 879,144	\$ -	\$ 107,043

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

BARS CODE	Capital Projects/Enterprise Funds	Fund Number and Name		Fund Number and Name	
		332 PWTF Sewer Const	401 Sewer	BUDGET	ACTUAL
	Beginning Net Cash and Investments	\$ 102,067	\$ 157,380	\$ 577,386	\$ 930,932
	Revenues and Other Sources				
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	702
340	Charges for Goods and Services	0	0	2,460,800	2,484,166
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	15,000	60,517	113,000	96,910
390	Other Financing Sources	0	0	360,000	0
	Total Revenues and Other Sources	15,000	60,517	2,933,800	2,581,778
	Total Resources	117,067	217,897	3,511,186	3,512,710
	Operating Expenditures:				
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	1,330,450	1,238,998
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	0	0	1,330,450	1,238,998
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	4,843,692	578,670	1,897,676	1,731,614
	Total Expenditures	4,843,692	578,670	3,228,126	2,970,612
597-599	Other Financing Uses	0	0	0	0
	Total Expenditures & Other Uses	4,843,692	578,670	3,228,126	2,970,612
	Excess (Deficit) of Resources Over Uses	-4,726,625	-360,773	283,060	542,098
380	Nonrevenues (Except 384)	4,726,625	2,054,169	0	0
580	Nonexpenditures (Except 584)	0	0	0	0
	Ending Net Cash and Investments	\$ -	\$ 1,693,396	\$ 283,060	\$ 542,098

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

BARS CODE	Enterprise Funds	Fund Number and Name 407 Sewer Revenue Bond		Fund Number and Name 410 Cum Reserve - Sewer	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 162,411	\$ 163,955	\$ 2,659,884	\$ 2,899,279
Revenues and Other Sources					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	18,900	35,047	2,100,000	949,028
390	Other Financing Sources	500,000	500,000	442,176	442,176
	Total Revenues and Other Sources	518,900	535,047	2,542,176	1,391,204
	Total Resources	681,311	699,002	5,202,060	4,290,483
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	0	0	0	0
591-93	Debt Service	200,000	199,586	152,555	50,745
594-96	Capital Outlay	0	0	0	0
	Total Expenditures	200,000	199,586	152,555	50,745
597-599	Other Financing Uses	0	0	1,310,000	554,169
	Total Expenditures & Other Uses	200,000	199,586	1,462,555	604,914
Excess (Deficit) of Resources Over Uses		481,311	499,416	3,739,505	3,685,569
380	Nonrevenues (Except 384)	0	0	273,837	281,837
580	Nonexpenditures (Except 584)	305,000	305,000	408,100	408,016
Ending Net Cash and Investments		\$ 176,311	\$ 194,416	\$ 3,605,242	\$ 3,559,390

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

BARS CODE	Enterprise Funds	Fund Number and Name 412 Solid Waste		Fund Number and Name 425 Stormwater	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 229,522	\$ 282,425	\$ -	\$ -
Revenues and Other Sources					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	4,945	0	0
340	Charges for Goods and Services	1,369,014	1,383,454	65,000	60,073
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	33,800	58,078	0	3,073
390	Other Financing Sources	0	729	0	0
	Total Revenues and Other Sources	1,402,814	1,447,206	65,000	63,146
	Total Resources	1,632,336	1,729,631	65,000	63,146
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	1,268,045	1,223,400	26,000	14,689
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	1,268,045	1,223,400	26,000	14,689
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	3,500	0	0	0
	Total Expenditures	1,271,545	1,223,400	26,000	14,689
597-599	Other Financing Uses	100,000	100,000	0	0
	Total Expenditures & Other Uses	1,371,545	1,323,400	26,000	14,689
Excess (Deficit) of Resources Over Uses		260,791	406,232	39,000	48,457
380	Nonrevenues (Except 384)	0	1,192	0	0
580	Nonexpenditures (Except 584)	55,000	54,037	0	0
Ending Net Cash and Investments		\$ 205,791	\$ 353,386	\$ 39,000	\$ 48,457

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

BARS CODE	Internal Service Fund	Fund Number and Name 501 Equip Replacement		Fund Number and Name	
		BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments		\$ 538,857	\$ 577,555	\$ -	\$ -
Revenues and Other Sources					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	105,000	25,000	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	20,000	20,130	0	0
390	Other Financing Sources	266,485	272,185	0	0
	Total Revenues and Other Sources	391,485	317,315	0	0
	Total Resources	930,342	894,870	0	0
Operating Expenditures:					
510	General Government	0	0	0	0
520	Security of Persons & Property	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	76,985	65,351	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture & Recreational	0	0	0	0
	Total Operating Expenditures	76,985	65,351	0	0
591-93	Debt Service	0	0	0	0
594-96	Capital Outlay	761,800	717,421	0	0
	Total Expenditures	838,785	782,772	0	0
597-599	Other Financing Uses	0	0	0	0
	Total Expenditures & Other Uses	838,785	782,772	0	0
Excess (Deficit) of Resources Over Uses		91,557	112,098	0	0
380	Nonrevenues (Except 384)	55,000	54,037	0	0
580	Nonexpenditures (Except 584)	0	0	0	0
Ending Net Cash and Investments		\$ 146,557	\$ 166,135	\$ -	\$ -

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

Fund Type: Special Revenue	Fund Number and Name 106 Cemetery Endowment		Fund Number and Name 107 Cum Reserve Parks	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 118,296	\$ 118,696	\$ 51,276	\$ 51,366
Revenues and Other Financing Sources	2,500	2,400	11,200	8,717
Total Resources	120,796	121,096	62,476	60,083
Expenditures and Other Financing Uses	100,000	0	55,000	54,104
Excess (Deficit) of Resources Over Uses	20,796	121,096	7,476	5,979
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 20,796	\$ 121,096	\$ 7,476	\$ 5,979

Fund Type: Special Revenue	Fund Number and Name 108 Stadium/Conv Center		Fund Number and Name 109 Special Investigations	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 4,522	\$ 11,683	\$ 4,761	\$ 4,788
Revenues and Other Financing Sources	22,500	40,933	250	220
Total Resources	27,022	52,616	5,011	5,008
Expenditures and Other Financing Uses	25,150	25,137	1,000	1,000
Excess (Deficit) of Resources Over Uses	1,872	27,479	4,011	4,008
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 1,872	\$ 27,479	\$ 4,011	\$ 4,008

Fund Type: Special Rev/Debt Service	Fund Number and Name 113 Paths & Trails		Fund Number and Name 204 LID 1991-1 Debt Service	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 34,887	\$ 34,905	\$ 19,700	\$ 19,001
Revenues and Other Financing Sources	2,650	3,023	300	272
Total Resources	37,537	37,928	20,000	19,273
Expenditures and Other Financing Uses	0	0	20,000	19,273
Excess (Deficit) of Resources Over Uses	37,537	37,928	0	0
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 37,537	\$ 37,928	\$ -	\$ -

The Accompanying Notes are an Integral Part of this Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

Fund Type: Debt Service/Capital Projects	Fund Number and Name 230 GO Bond Redemption		Fund Number and Name 310 Mitigation Reserve-Police	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 66,468	\$ 68,921	\$ 66,159	\$ 68,062
Revenues and Other Financing Sources	193,800	196,111	28,500	14,909
Total Resources	260,268	265,032	94,659	82,971
Expenditures and Other Financing Uses	197,500	197,379	29,285	29,285
Excess (Deficit) of Resources Over Uses	62,768	67,653	65,374	53,686
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 62,768	\$ 67,653	\$ 65,374	\$ 53,686

Fund Type: Capital Projects	Fund Number and Name 311 Mitigation Reserve-Parks		Fund Number and Name 312 Mitigation Reserve-Fire	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 124,793	\$ 124,382	\$ 100,611	\$ 87,124
Revenues and Other Financing Sources	163,000	140,468	52,000	34,671
Total Resources	287,793	264,850	152,611	121,795
Expenditures and Other Financing Uses	145,000	78,557	12,000	10,030
Excess (Deficit) of Resources Over Uses	142,793	186,293	140,611	111,765
Non-Revenues	0	0	0	0
Non-Expenditures	0	0	0	0
Ending Net Cash and Investments	\$ 142,793	\$ 186,293	\$ 140,611	\$ 111,765

Fund Type: Enterprise/Fiduciary	Fund Number and Name 411 Sewer Bond Reserve		Fund Number and Name 621 Suspense Fund	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ 519,239	\$ 519,239	\$ -	\$ 34,170
Revenues and Other Financing Sources	0	0	\$ -	
Total Resources	519,239	519,239	0	34,170
Expenditures and Other Financing Uses	0	0		
Excess (Deficit) of Resources Over Uses	519,239	519,239	0	34,170
Non-Revenues	0	0	0	112,170
Non-Expenditures	0	0	0	146,340
Ending Net Cash and Investments	\$ 519,239	\$ 519,239	\$ -	\$ -

The Accompanying Notes are an Integral Part of this Statement.

CITY OF SEDRO-WOOLLEY
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS
 For The Year Ending December 31, 2007

Fund Type: Clearing	Fund Number and Name 631 Payroll Clearing Fund		Fund Number and Name 632 Claims Clearing Fund	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Beginning Net Cash and Investments	\$ -	\$ 229,894	\$ -	\$ 1,416,194
Revenues and Other Financing Sources	0	0	0	
Total Resources	0	229,894	0	1,416,194
Expenditures and Other Financing Uses	0	0	0	0
Excess (Deficit) of Resources Over Uses	0	229,894	0	1,416,194
Non-Revenues	0	4,471,086	0	9,701,755
Non-Expenditures	0	4,463,033	0	10,178,237
Ending Net Cash and Investments	\$ -	\$ 237,947	\$ -	\$ 939,712

The Accompanying Notes are an Integral Part of this Statement.

CITY OF SEDRO-WOOLLEY
Notes to Financial Statements 2007

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

The City of Sedro-Woolley was incorporated in December 1898 and operated under the laws of the state of Washington applicable to a Second Class City with a Mayor-Council form of government through the majority of 2007. On September 3, 2007 the City became a Noncharter Code City pursuant to the Optional Municipal Code of the State of Washington, retaining the Mayor-Council plan of government. The City of Sedro-Woolley is a general purpose government and provides applicable municipal services. The City of Sedro-Woolley uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the City of Sedro-Woolley. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for revenues that are legally restricted or designated to finance particular activities of the City of Sedro-Woolley.

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Expendable Trust Funds

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

Non-expendable Trust Funds

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

Agency Funds

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

b. Basis Of Accounting

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

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

c. Budgets

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

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

The Finance Director is authorized to transfer budgeted amounts between object classes within departments. However, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Sedro-Woolley's legislative body.

d. Cash

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

e. Deposits

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

f. Investments See Note #3

g. Fixed Assets

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

h. Compensated Absences

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

i. Long-Term Debt See Note #5

j. Other Financing Sources Or Uses

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

k. Risk Management

The City of Sedro-Woolley is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Currently, the CIAW has 95 member cities and 161 associate members.

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

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool, however, purchases a Stop Loss Policy in the amount of \$5,500,000 to eliminate any risk to members and funds the stop loss in the budget.

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

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

Each new member now pays the pool an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 before terminating participation the following September 1. The Interlocal Governmental Agreement is renewed automatically each year.

Even after termination, a member remains responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2006 and 2007 were \$1,153,031 and \$1,242,382 respectively.

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

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

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

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

NOTE 3 - INVESTMENTS

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

Investments by type at December 31, 2007 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
Local Government Investment Pool	\$11,900,580
TOTAL	\$11,900,580

NOTE 4 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month. Property tax revenues are recognized when cash is received by the City of Sedro-Woolley. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City of Sedro-Woolley's regular levy for 2007 was \$2.2598, the General Obligation Bond levy was \$0.2743, for a total levy of \$2.5341 per \$1,000 on an assessed valuation of \$711,332,593 regular levy and \$699,986,348 bond levy, for a total property tax levy of \$1,799,392.

NOTE 5 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Debt provides a listing of the outstanding debt of the City of Sedro-Woolley and summarizes the city's debt transactions for 2007. The debt service requirements, including interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debts</u>	<u>Total Debts</u>
2007	250,712	537,469		788,181
2008	253,224	533,551		786,775
2009	260,112	524,142		784,254
2010	201,600	524,042		725,642
2011	211,350	527,976		739,326
2012-2016	1,130,600	2,468,136		3,598,736
2017-2021		1,853,030		1,853,030
2022-2026		<u>1,423,157</u>		<u>1,423,157</u>
TOTALS	\$2,307,598	\$8,391,503	\$0	\$10,699,101

NOTE 6 - PENSION PLANS

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

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

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

NOTE 7 – INTERFUND LOANS

The following table displays interfund loan activity during 2007:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 01/01/07</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/07</u>
Solid Waste	Equipment Replacement	\$ 52,571	\$ 0	\$ 52,571	\$ 0
Streets	Sewer Reserve	\$ 37,961	\$ 0	\$ 6,207	\$ 31,754
Stormwater	Sewer Reserve	\$ 0	\$ 408,015	\$ 269,012	\$139,003

NOTE 8 – SHORT-TERM DEBT

The City of Sedro-Woolley was approved by USDA Rural Development to receive a loan totaling \$2,925,000 to construct a new City Hall. Interim financing, not to exceed \$3,800,000, was received from Peoples Bank during the construction period at an interest rate of 3.95%, maturing on September 1, 2008. The short-term loan balance at December 31, 2007 was \$2,127,102.

SCHEDULE OF LONG TERM DEBT

For the Year Ended December 31, 2007

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

ID NO.	Date of Original Issue	Date of Maturity	(1)			(2)		(3)	(4)	
			Beginning Outstanding Debt 01/01/07 (Ending Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	ENDING OUTSTANDING DEBT 12/31/07 (1) + (2) - (3)		
251.12	12/96	12/16	240,000	-	115,000	592.21.71	230	125,000		
251.11	09/02	09/09	150,994	-	48,381	596.22.64.10	1	102,613		
251.12	02/05	12/16	1,490,000	-	10,000	592.21.71	230	1,480,000		
TOTALS			\$ 1,880,994	\$ -	\$ 173,381			\$ 1,707,613		

SCHEDULE OF LONG TERM DEBT

For the Year Ended December 31, 2007

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

ID NO.	Date of Original Issue	Date of Maturity	(1)			(2)		(3)	(4)	
			Beginning Outstanding Debt 01/01/07 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	ENDING OUTSTANDING DEBT 12/31/07 (1) + (2) - (3)		
252.11	6/10/1998	6/1/2018	\$ 4,355,000	-	305,000	582.35.72	407	4,050,000		
263.82	5/13/2005	7/1/2010	\$ 529,875	-	27,888	592.35.10	410	501,987		
263.82	7/6/2006	7/1/2026	\$ 3,150,000	\$ 1,750,000	\$ -	592.35.10	410	4,900,000		
TOTALS			\$ 8,034,875	\$ 1,750,000	\$ 332,888			\$ 9,451,987		

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2007

1	2	2	3	5			6
Federal Agency Name / Pass- Through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures			Foot- note Ref.
				Pass- Through	Direct Awards	Total	
Rural Development, Department of Agriculture	Community Facilities Loans & Grants	10.766			2,127,102	2,127,102	3, 2
Federal Highway Administration, Dept of Transportation / Wash State Dept of Transportation	Highway Planning & Construction	20.205	REV-0020 (117)LA-4441	80,126		80,126	2
Office of Library Services / Office of the Sec of State, Wash State Library	Grants to States / Connecting Learners	45.310	G-3334	1,695		1,695	2
Office of Library Services / Office of the Sec of State, Wash State Library	Grants to States / Targeted Competitive	45.310	G-3546	1,543		1,543	2
Department of Homeland Security / Washington State Military Dept	Disaster Grants Public Assistance	97.036	057-63175-00	43,347		43,347	2
Department of Homeland Security	Assist to Firefighters Grant	97.044	EMW-2007- FO-00919		49,724	49,724	2
TOTAL FEDERAL AWARDS EXPENDED					<u>\$ 126,711</u>	<u>\$ 2,176,826</u>	<u>\$ 2,303,537</u>

The Accompanying Notes To The Schedule Of Expenditures of Federal Awards Are An Integral Part Of This Schedule

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2007

CITY OF SEDRO-WOOLLEY, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(AND STATE/LOCAL FINANCIAL ASSISTANCE)NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the City of Sedro-Woolley's financial statements. The City uses the cash basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the Federal grant portion of the program costs. Entire program costs, including the City's portion, may be more than shown.

NOTE 3 - FEDERAL LOANS

The City of Sedro-Woolley was approved by USDA Rural Development to receive a loan totaling \$2,925,000 to build a City Hall. The amount listed included loan proceeds from interim financing obtained from Peoples Bank during the construction period. As the interim financing is short-term in nature, it is not included on the City's Schedule of Long-Term Debt.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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