

Washington State Auditor's Office
Financial Statements Audit Report

City of Sedro-Woolley
Skagit County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008679

Issued **December 10, 2012**
Reissued **December 17, 2012**



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

December 17, 2012

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

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**City of Sedro-Woolley
Skagit County
January 1, 2011 through December 31, 2011**

Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters in Accordance with *Government Auditing Standards*..... 1

Independent Auditor’s Report on Financial Statements..... 3

Financial Section..... 5

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, 2011 through December 31, 2011

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, 2011, and have issued our report thereon dated November 8, 2012.

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.

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 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.

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 deficiencies, 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 and the Mayor and City Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 8, 2012

Independent Auditor's Report on Financial Statements

**City of Sedro-Woolley
Skagit County
January 1, 2011 through December 31, 2011**

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, 2011. 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, 2011, 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 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.

The report is intended for the information and use of the management and the Mayor and City Council of the City. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 8, 2012

Financial Section

**City of Sedro-Woolley
Skagit County
January 1, 2011 through December 31, 2011**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2011
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2011
Notes to Financial Statements – 2011

SUPPLEMENTARY INFORMATION

Schedule of Liabilities – 2011

CITY OF SEDRO-WOOLLEY
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2011

BARS CODE		Total for All All Funds ^{1/} Total Amount	001 Current Expense Funds Actual Amount	102 Cemetery Actual Amount	103 Streets Actual Amount
Beginning Cash and Investments:					
308.10	Reserved	\$ -	\$ -	\$ -	\$ -
308.8	Unreserved	\$ 7,434,734	\$ 753,643	\$ 11,361	\$ 51,151
388.80 588.80	Prior Period Adjustments	0	0	0	0
Revenues and Other Sources:					
310	Taxes	4,539,763	3,295,753	87,348	258,612
320	Licenses and Permits	130,803	123,520	1,742	3,667
330	Intergovernmental	2,611,082	512,419	0	219,227
340	Charges for Goods and Services	5,066,109	100,665	63,394	1,308
350	Fines and Penalties	73,125	67,617	0	0
360	Miscellaneous	199,313	21,454	310	1,266
370	Capital Contributions	99,777	0	0	0
390	Other Financing Sources	921,802	441,633	0	106,889
Total Revenues and Other Financing Sources		13,641,774	4,563,061	152,794	590,969
Total Resources		21,076,508	5,316,704	164,155	642,120
Operating Expenditures:					
510	General Government	600,377	556,064	0	0
520	Public Safety	2,974,931	2,973,578	0	0
530	Physical Environment	3,426,323	119,888	133,608	0
540	Transportation	552,015	0	0	505,197
550	Economic Environment	227,336	224,139	0	0
560	Mental and Physical Health	21,315	21,315	0	0
570	Culture and Recreational	756,642	476,768	0	0
Total Operating Expenditures		8,558,939	4,371,752	133,608	505,197
591-593	Debt Service	580,393	58,321	0	0
594-595	Capital Outlay	3,693,822	120,537	3,628	65,243
Total Expenditures		12,833,154	4,550,610	137,236	570,440
597-599	Other Financing Uses	919,831	10,267	2,051	13,093
Total Expenditures and Other Financing Uses		13,752,985	4,560,877	139,287	583,533
Excess (Deficit) of Resources Over Uses		7,323,523	755,827	24,868	58,587
380	Nonrevenues (Except 384)	513,258	34,224	6,500	16,552
580	Nonexpenditures (Except 584)	1,439,081	27,003	6,500	16,502
Ending Cash and Investments:					
508.10	Reserved	\$ 3,286,385	\$ -	\$ -	\$ -
508.80	Unreserved	\$ 3,111,315	\$ 763,048	\$ 24,868	\$ 58,637

1/ This column summarizes ALL reported funds, not just funds listed on this page

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, 2011

BARS CODE		104 Arterial Streets Actual Amount	105 Library Actual Amount	106 Cemetery Endowment Actual Amount	107 Parks Reserve Actual Amount
Beginning Cash and Investments:					
308.10	Reserved	\$ -	\$ -	\$ -	\$ -
308.8	Unreserved	\$ 710,555	\$ 35,969	\$ 111,496	\$ 6,541
388.80 588.80	Prior Period Adjustments	0	0	0	0
Revenues and Other Sources:					
310	Taxes	0	302,800	0	0
320	Licenses and Permits	0	1,874	0	0
330	Intergovernmental	1,735,492	29,675	0	0
340	Charges for Goods and Services	23,667	6,904	1,600	0
350	Fines and Forfeits	0	5,508	0	0
360	Miscellaneous	1,550	4,717	0	415
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	0	0	0	0
Total Revenues and Other Financing Sources		1,760,709	351,478	1,600	415
Total Resources		2,471,264	387,447	113,096	6,956
Operating Expenditures:					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	3,197	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	275,185	0	0
Total Operating Expenditures		3,197	275,185	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	2,712,478	23,210	0	4,813
Total Expenditures		2,715,675	298,395	0	4,813
597-599	Other Financing Uses	25,956	0	0	0
Total Expenditures and Other Financing Uses		2,741,631	298,395	0	4,813
Excess (Deficit) of Resources Over Uses		(270,367)	89,052	113,096	2,143
380	Nonrevenues (Except 384)	301,500	34,600	0	0
580	Nonexpenditures (Except 584)	30,022	39,683	0	0
Ending Cash and Investments:					
508.10	Reserved	\$ -	\$ -	\$ -	\$ 2,143
508.80	Unreserved	\$ 1,111	\$ 83,969	\$ 113,096	\$ -

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, 2011

BARS CODE		108 Stadium/ Conv Center Actual Amount	109 Special Investigations Actual Amount	111 Dog Fund Actual Amount	113 Paths & Trails Actual Amount
Beginning Cash and Investments:					
308.10	Reserved	\$ -	\$ -	\$ -	\$ -
308.8	Unreserved	\$ 34,808	\$ 4,394	\$ -	\$ 39,551
388.80 588.80	Prior Period Adjustments	0	0	0	0
Revenues and Other Sources:					
310	Taxes	30,785	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	1,101
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	82	7,699	625	105
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	0	0	0	0
Total Revenues and Other Financing Sources		30,867	7,699	625	1,206
Total Resources		65,675	12,093	625	40,757
Operating Expenditures:					
510	General Government	35,223	0	0	0
520	Public Safety	0	1,339	14	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
Total Operating Expenditures		35,223	1,339	14	0
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	0	0	484	0
Total Expenditures		35,223	1,339	498	0
597-599	Other Financing Uses	11,400	0		0
Total Expenditures and Other Financing Uses		46,623	1,339	498	0
Excess (Deficit) of Resources Over Uses		19,052	10,754	127	40,757
380	Nonrevenues (Except 384)	0	0	0	0
580	Nonexpenditures (Except 584)	0	0	0	0
Ending Cash and Investments:					
508.10	Reserved	\$ -	\$ -	\$ -	\$ -
508.80	Unreserved	\$ 19,052	\$ 10,754	\$ 127	\$ 40,757

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, 2011

BARS CODE		205 G/O 2008 Bond Redemption Actual Amount	206 G/O 2008 Bond Reserve Actual Amount	230 G/O 1996 Bond Redemption Actual Amount	302 Capital Projects Reserve Actual Amount
Beginning Cash and Investments:					
308.10	Reserved	\$ -	\$ -	\$ -	\$ -
308.8	Unreserved	\$ 92,914	\$ 150,000	\$ 87,622	\$ 264,525
388.80 588.80	Prior Period Adjustments	0	0	0	0
Revenues and Other Sources:					
310	Taxes	200,440	0	211,123	125,419
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	779	0	441	624
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	0	5,850	0	0
Total Revenues and Other Financing Sources		201,219	5,850	211,564	126,043
Total Resources		294,133	155,850	299,186	390,568
Operating Expenditures:					
510	General Government	0	0	0	0
520	Public Safety	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 and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
Total Operating Expenditures		0	0	0	0
591-593	Debt Service	150,550	0	211,350	0
594-595	Capital Outlay	0	0	0	0
Total Expenditures		150,550	0	211,350	0
597-599	Other Financing Uses	55,000	0	0	171,199
Total Expenditures and Other Financing Uses		205,550	0	211,350	171,199
Excess (Deficit) of Resources Over Uses		88,583	155,850	87,836	219,369
380	Nonrevenues (Except 384)	0	0	0	84,600
580	Nonexpenditures (Except 584)	0	0	0	84,600
Ending Cash and Investments:					
508.10	Reserved	\$ -	\$ 155,850	\$ -	\$ 219,369
508.80	Unreserved	\$ 88,583	\$ -	\$ 87,836	\$ -

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, 2011

BARS CODE		303 Building Maintenance Reserve Actual Amount	310 Police Mitigation Reserve Actual Amount	311 Parks Impact Fee Res Actual Amount	312 Fire Impact Fee Reserve Actual Amount
Beginning Cash and Investments:					
308.10	Reserved	\$ -	\$ -	\$ -	\$ -
308.8	Unreserved	\$ 55,141	\$ 11,061	\$ 121,229	\$ 12,598
388.80 588.80	Prior Period Adjustments	0	0	0	0
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	4,500	2,891
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	746	413	317	39
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	55,000	0	0	0
Total Revenues and Other Financing Sources		55,746	413	4,817	2,930
Total Resources		110,887	11,474	126,046	15,528
Operating Expenditures:					
510	General Government	0	0	0	0
520	Public Safety	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 and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	4,689	0
Total Operating Expenditures		0	0	4,689	0
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	6,998	0	0	0
Total Expenditures		6,998	0	4,689	0
597-599	Other Financing Uses	30,000	10,000	0	0
Total Expenditures and Other Financing Uses		36,998	10,000	4,689	0
Excess (Deficit) of Resources Over Uses		73,889	1,474	121,357	15,528
380	Nonrevenues (Except 384)	0	0	0	0
580	Nonexpenditures (Except 584)	0	0	0	0
Ending Cash and Investments:					
508.10	Reserved	\$ 73,889	\$ 1,474	\$ 121,357	\$ 15,528
508.80	Unreserved	\$ -	\$ -	\$ -	\$ -

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, 2011

BARS CODE		330 Fire Station 2 Construction Actual Amount	401 Sewer Funds Actual Amount	412 Solid Waste Funds Actual Amount	425 Stormwater Actual Amount
Beginning Cash and Investments:					
308.10	Reserved	\$ -	\$ -	\$ -	\$ -
308.8	Unreserved	\$ 4,490	\$ 3,903,044	\$ 490,963	\$ 35,581
388.80 588.80	Prior Period Adjustments	0	0	0	0
Revenues and Other Sources:					
310	Taxes	0	0	0	27,483
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	72,533	0	0	40,635
340	Charges for Goods and Services	0	3,066,868	1,576,202	218,110
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	(5)	63,886	90,092	1,798
370	Capital Contributions	0	99,777	0	0
390	Other Financing Sources	64,310	0	0	5,073
Total Revenues and Other Financing Sources		136,838	3,230,531	1,666,294	293,099
Total Resources		141,328	7,133,575	2,157,257	328,680
Operating Expenditures:					
510	General Government	9,090	0	0	0
520	Public Safety	0	0	0	0
530	Physical Environment	0	1,456,670	1,417,304	298,853
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
Total Operating Expenditures		9,090	1,456,670	1,417,304	298,853
591-593	Debt Service	0	160,172	0	0
594-595	Capital Outlay	132,238	563,875	22,295	158
Total Expenditures		141,328	2,180,717	1,439,599	299,011
597-599	Other Financing Uses	0	339,884	231,245	19,736
Total Expenditures and Other Financing Uses		141,328	2,520,601	1,670,844	318,747
Excess (Deficit) of Resources Over Uses		0	4,612,974	486,413	9,933
380	Nonrevenues (Except 384)	0	35,099	140	0
580	Nonexpenditures (Except 584)	0	1,234,771	0	0
Ending Cash and Investments:					
508.10	Reserved	\$ -	\$ 2,546,976	\$ 149,799	\$ -
508.80	Unreserved	\$ -	\$ 866,326	\$ 336,754	\$ 9,933

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, 2011

BARS CODE		501 Equipment Replacement Actual Amount			
Beginning Cash and Investments:					
308.10	Reserved	\$ -			
308.8	Unreserved	\$ 446,097			
388.80 588.80	Prior Period Adjustments	0			
Revenues and Other Sources:					
310	Taxes	0			
320	Licenses and Permits	0			
330	Intergovernmental	0			
340	Charges for Goods and Services	0			
350	Fines and Forfeits	0			
360	Miscellaneous	1,960			
370	Capital Contributions	0			
390	Other Financing Sources	243,047			
Total Revenues and Other Financing Sources		245,007			
Total Resources		691,104			
Operating Expenditures:					
510	General Government	0			
520	Public Safety	0			
530	Physical Environment	0			
540	Transportation	46,818			
550	Economic Environment	0			
560	Mental and Physical Health	0			
570	Culture and Recreation	0			
Total Operating Expenditures		46,818			
591-593	Debt Service	0			
594-595	Capital Outlay	37,865			
Total Expenditures		84,683			
597-599	Other Financing Uses				
Total Expenditures and Other Financing Uses		84,683			
Excess (Deficit) of Resources Over Uses		606,421			
380	Nonrevenues (Except 384)	43			
580	Nonexpenditures (Except 584)	0			
Ending Cash and Investments:					
508.10	Reserved	\$ -			
508.80	Unreserved	\$ 606,464			

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 Ending December 31, 2011

	Total for		621 Suspense S-W School Trust Actual Amount
	All Funds Total Amount		
Beginning Cash and Investments	\$	-	\$ -
Prior Period Adjustments		0	0
Revenue and Other Financing Sources		0	0
Total Resources		0	0
Expenditures And Other Financing Uses		\$0	0
Excess (Deficit) of Resources Over Uses		0	0
Nonrevenues (Except 384)		9,897	9,897
Nonexpenditures (Except 584)		7,947	7,947
Ending Cash and Investments	\$	1,950	\$ 1,950

The Accompanying Notes Are An Integral Part Of This Statement.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The City of Sedro-Woolley reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that 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. 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 operates under the laws of the state of Washington applicable to a Noncharter Code City. 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. For clarity in financial reporting, 101 Parks Operations Fund is 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.

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 Fund, 407 Revenue Bond, 410 Capital Projects Reserve, 411 Revenue Bond Reserve and 332 Public Works Trust Fund (PWTF) Sewer Construction Fund. Also, 412 Solid Waste Operations and 413 Solid Waste Reserve are rolled into 412 Solid Waste 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.

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(s) budget appropriations as required by state law.

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.

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

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

The City of Sedro-Woolley adopts annual appropriated budgets for all funds. These budgets are adopted at the fund level for all funds. The budgets constitute 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.

The Finance Director is authorized to transfer budgeted amounts between departments within any fund as well as 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.

Council approved budget amendments during 2011 primarily related to changes in construction projects, awarding of grants, increased Washington State payroll taxes, establishment of cable franchise fees as well as changes in the local economy.

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

Fund	Final Appropriated Amounts	Actual Expenditures	Variance under/(over)
Current Expense Fund	\$4,855,305	\$4,074,747	\$780,558
Parks Fund	648,191	513,133	135,058
Cemetery Fund	158,072	145,787	12,285
Street Fund	650,964	600,035	50,929
Arterial Street Fund	4,321,949	2,771,653	1,550,296
Library Fund	438,623	338,078	100,545
Cemetery Endowment Fund	114,996	0	114,996
Parks Reserve Fund	7,071	4,813	2,258
Stadium/Convention Center Fund	62,008	46,623	15,385
Special Investigations Fund	4,419	1,339	3,080
Dog Fund	750	498	252
Paths and Trails Fund	40,776	0	40,776
G/O 2008 Bond Redemption Fund	288,914	205,550	83,364
G/O 2008 Bond Reserve Fund	155,850	0	155,850
G/O 1996 Bond Redemption Fund	293,097	211,350	81,747
Capital Projects Reserve Fund	578,524	255,799	322,725
Building Maintenance Reserve Fund	110,241	36,998	73,243
Police Mitigation Reserve Fund	11,641	10,000	1,641
Parks Impact Fee Reserve Fund	121,629	4,689	116,940
Fire Impact Fee Reserve Fund	12,698	0	12,698
Fire Station 2 Construction Fund	141,356	141,328	28
PWTF Sewer Construction Fund	537,535	0	537,535
Sewer Operations Fund	3,676,614	3,360,462	316,152
Sewer Facilities Reserve Fund	538,435	50,248	488,187
1998 Sewer Revenue Bond Fund	807,320	467,202	340,118
Sewer Capital Projects Reserve Fund	3,392,699	1,152,741	2,239,958
1998 Sewer Revenue Bond Reserve Fund	376,482	0	376,482
Solid Waste Operations Fund	2,042,648	1,775,344	267,304
Solid Waste Reserve Fund	90,190	0	90,190
Stormwater Fund	383,904	318,747	65,157
Equipment Replacement Fund	689,723	84,683	605,040
Suspense/Sedro-Woolley Schools Trust	40,000	7,947	32,053

d. Cash

It is the City of Sedro-Woolley's policy to invest all temporary cash surpluses. The amount is included in the 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 #3g. Capital Assets

Capital 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 280 hours and is payable upon separation or retirement. In the unlikely event that all employees separated from employment at fiscal year end, the amount that would be due to employees to buy-out vested leave balances is \$252,052.

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 #5j. 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, 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. As of September 1, 2011, there are 254 members in the pool.

The pool provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The pool acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self insured retention 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 self insured retention. The pool also purchases a Stop Loss Policy with a limit of \$2,545,000 to cap the total claims paid by the pool in any one year.

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 pool bears the \$25,000 self insured retention in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim. There is no pool self insured retention on this coverage.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool 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 pool. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including underwriting, brokerage, account education, risk management and loss control, and claims administration.

1. Reserved Fund Balances

The City has two reserve funds which were created as a result of bond requirements: G/O 2008 Bond Reserve Fund 206, for USDA City Hall, Fire Truck and Fire Ladder Truck loans with a 12/31/11 balance of \$155,850 as well as 1998 Sewer Revenue Bond Reserve Fund 411, as established by the refunding bonds related to the Waste Water Treatment Plant with a balance of \$376,482 at 12/31/11.

The City Council has established the following reserve accounts by resolution:

<u>Fund</u>	<u>Purpose</u>	<u>12/31/11 Balance</u>
Parks Reserve Fund 107	Community Donations	\$ 2,143
Capital Projects Reserve Fund 302	REET monies	219,369
Building Maintenance Reserve Fund 303	Major building repairs	73,889
Police Mitigation Reserve Fund 310	SEPA payments	1,474
Parks Impact Fee Reserve Fund 311	GMA payments	121,357
Fire Impact Fee Reserve Fund 312	GMA payments	15,528
Sewer Facilities Reserve Fund 402	Major plant equipment	561,835
Sewer Capital Projects Reserve Fund 410	Future projects	1,608,659
Solid Waste Reserve Fund 413	Future enhancements	149,799

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 are presented at cost.

Investments by type at December 31, 2011 are as follows:

<u>Type of Investment</u>	<u>City of Sedro-Woolley's Own Investments</u>	<u>Held as an Agent for Others</u>	<u>Balance</u>
Local Government Investment Pool	\$5,007,810	\$ 0	\$5,007,810
TOTAL	\$5,007,810	\$ 0	\$5,007,810

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 2011 was \$2.1952079 per \$1,000 on an assessed valuation of \$792,417,170 for a total regular levy of \$1,739,520. In addition, the City levied \$0.27025879 per \$1,000 on an assessed valuation of \$777,032,985 for the Public Safety Building General Obligation Bond for a total additional levy of \$210,000.

NOTE 5 - LONG-TERM DEBT

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the City of Sedro-Woolley and summarizes the city's debt transactions for 2011. The debt service payment for the fiscal year being reported and future payment requirements including interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debts</u>	<u>Total Debts</u>
2011	\$ 420,221	\$1,093,141	\$ 0	\$1,513,362
2012	423,871	1,076,050	0	1,499,921
2013	432,071	1,049,158	0	1,481,229
2014	434,471	1,042,267	0	1,476,738
2015	436,470	1,039,876	0	1,476,346
2016-2020	1,283,554	4,297,907	0	5,581,461
2021-2025	1,044,353	2,957,724	0	4,002,077
2026-2030	1,044,354	927,428	0	1,971,782
2031-2035	752,749	0	0	752,749
2036-2040	752,749	0	0	752,749
2041-2045	752,748	0	0	752,748
2046-2050	<u>443,104</u>	<u>0</u>	<u>0</u>	<u>443,104</u>
TOTALS	\$8,220,715	\$13,483,551	\$ 0	\$21,704,266

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 Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. 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 plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

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

NOTE 7 – INTERFUND LOANS

During 2011 the City of Sedro-Woolley utilized Resolution 794-09 authorizing short-term interfund loans from the Capital Projects Reserve Fund to funds supported by property taxes to maintain cash flow. The interest rate equals the average of the Washington State Treasurer's Local Government Investment Pool rate for the period which the loan is outstanding. The Parks, Cemetery, Streets and Library Funds received and repaid short term loans under this resolution in 2011.

The City Councils passed 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. The interest rate equals the average of the Washington State Treasurer's Local Government Investment Pool rate for the period which the loan is outstanding.

The following table displays interfund loan activity during 2011:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 01/01/11</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/11</u>
Stormwater	Sewer Reserve	139,003	0	0	139,003
Library	Sewer Reserve	5,072	0	5,072	0
Parks	Capital Project	0	27,000	27,000	0
Streets	Capital Project	0	16,500	16,500	0
Cemetery	Capital Project	0	6,500	6,500	0
Library	Capital Project	0	34,600	34,600	0
Arterial Streets	Sewer Reserve	<u>0</u>	<u>301,500</u>	<u>30,000</u>	<u>271,500</u>
TOTALS		\$144,075	\$ 386,100	\$ 119,672	\$410,503

NOTE 8 – POST EMPLOYMENT BENEFITS

The City of Sedro-Woolley has a commitment to pay for post employment benefits for employees that belong to the LEOFF 1 retirement plan. These benefits include medical, vision, dental, hearing, prescriptions and long-term nursing care. Eight (8) retirees received benefits during 2011 and \$114,373 was paid out for those benefits during the year.

SCHEDULE OF LIABILITIES

For the Year Ended December 31, 2011

ID NO.	Description	Maturity/Payment Due Date	(1) Beginning Balance 01/01/11	(2) Additions	(3) Reductions	BARS Code for Redemption of Debt Only	(4) Ending Outstanding Debt 12/31/11
251.11	City Hall - 08/08	August 28, 2048	\$ 2,862,317	\$ -	\$ 32,480	591.35.71	\$ 2,829,837
251.11	Ladder Truck - 2/10	February 8, 2030	525,000	-	19,873	591.22.71	505,127
251.11	Fire Truck - 9/10	September 2, 2030	267,500	-	8,978	591.22.71	258,522
251.14	Public Safety Building - 02/05	December 1, 2016	1,170,000	-	165,000	591.21.71	1,005,000
252.11	Sewer Revenue - 05/08	June 1, 2018	2,975,000	-	355,000	582.35.72	2,620,000
259.11	Compensated Absences		149,202	15,126	0	various	164,328
259.12	Compensated Absences		74,176	13,548	0	various	87,724
263.82	PWTF Sewer - 05/05	July 1, 2025	574,168		38,278	582.35.73	535,890
263.82	PWTF Sewer - 07/06	July 1, 2026	5,600,000	-	350,000	582.35.73	5,250,000
263.82	PWTF Sewer - 07/08	July 1, 2028	3,419,872		189,993	582.35.73	3,229,879
	TOTAL		\$ 17,617,235	\$ 28,674	\$ 1,159,602		\$ 16,486,307



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 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 employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Puggetti
Chuck Pfeil, CPA
Larisa Benson
James E. Brittain, CPA, CFE
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

Website
Subscription Service

www.sao.wa.gov
<https://www.sao.wa.gov/EN/News/Subscriptions/>