



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Sedro-Woolley

Skagit County

For the period January 1, 2013 through December 31, 2013

Published November 13, 2014

Report No. 1012963





Washington State Auditor
Troy Kelley

November 13, 2014

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,

TROY KELLEY
STATE AUDITOR

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**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**City of Sedro-Woolley
Skagit County
January 1, 2013 through December 31, 2013**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Sedro-Woolley, Skagit County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 21, 2014.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

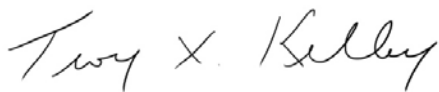
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

October 21, 2014

Independent Auditor's Report on Financial Statements

**City of Sedro-Woolley
Skagit County
January 1, 2013 through December 31, 2013**

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Sedro-Woolley, Skagit County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Sedro-Woolley, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Sedro-Woolley, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

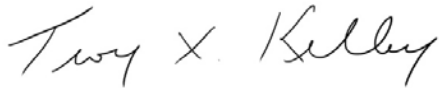
Supplementary and Other Information

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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

October 21, 2014

Financial Section

**City of Sedro-Woolley
Skagit County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General	102 Cemetery	103 Streets
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	3,217,279	0	0	0
30880	Beg Fund Bal-Unreserved	3,540,997	844,810	45,563	93,043
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	4,813,433	3,578,084	6,970	382,848
320	Licenses & Permits	204,936	204,936	0	0
330	Intergovernmental Revenues	3,394,850	186,383	0	218,242
340	Charges for Goods and Services	5,862,545	320,632	88,088	0
350	Fines & Penalties	87,391	82,713	0	0
360	Miscellaneous Revenues	152,429	65,384	207	91
Total Operating Revenues:		14,515,584	4,438,132	95,265	601,181
Operating Expenditures					
510	General Government	598,600	598,600	0	0
520	Public Safety	3,121,736	3,117,448	0	0
530	Utilities	3,528,741	0	111,830	0
540	Transportation	571,550	0	0	516,624
550	Natural and Economic Environment	148,110	116,348	0	0
560	Social Services	40,703	40,703	0	0
570	Culture And Recreation	755,297	466,498	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		8,764,737	4,339,597	111,830	516,624
Net Operating Increase (Decrease):		5,750,847	98,535	-16,565	84,557
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	2,621,807	5,213	1,697	108
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	1,097,092	425,836	0	127,834
Total Nonoperating Revenues:		3,718,899	431,049	1,697	127,942
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	2,442,148	3,449	0	0
591-593	Debt Service	1,961,943	10,000	0	0
594-595	Capital Expenditures	4,364,674	219,610	0	135,314
597	Transfers-Out	1,097,092	111,675	14,025	105,825
Total Nonoperating Expenditures:		9,865,857	344,734	14,025	241,139
Increase (Decrease) in Cash and Investments		-396,111	184,850	-28,893	-28,640
Ending Cash and Investments					
50810	End Fund Bal-Reserved	3,535,147	0	0	0
50880	End Fund Balance-Unreserved	2,827,018	1,029,660	16,670	64,403

The accompanying notes are an integral part of this Statement.

BARS Code		104 Arterial Streets	105 Library	106 Cemetery Endowment	107 Parks Reserve
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	115
30880	Beg Fund Bal-Unreserved	320,750	97,070	116,146	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	246,328	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	2,907,687	8,398	0	0
340	Charges for Goods and Services	99,738	14,812	4,200	0
350	Fines & Penalties	0	4,494	0	0
360	Miscellaneous Revenues	294	593	0	100
Total Operating Revenues:		3,007,719	274,625	4,200	100
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	3,197	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	288,736	0	63
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		3,197	288,736		63
Net Operating Increase (Decrease):		3,004,522	-14,111	4,200	37
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	1,132,200	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		1,132,200			
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	1,111,228	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	3,326,461	20,587	0	0
597	Transfers-Out	16,097	0	0	0
Total Nonoperating Expenditures:		4,453,786	20,587		
Increase (Decrease) in Cash and Investments		-317,064	-34,698	4,200	37
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	152
50880	End Fund Balance-Unreserved	3,686	62,372	120,346	0

The accompanying notes are an integral part of this Statement.

BARS Code		108 Lodging Tax	109 Special Investigations	111 Dog Fund	112 Code Enforcement
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	19,288	17,787	438	29,007
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	32,408	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	28	13,057	1,176	39
Total Operating Revenues:		32,436	13,057	1,176	39
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	4,236	52	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	31,762	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		31,762	4,236	52	
Net Operating Increase (Decrease):		674	8,821	1,124	39
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	8,901	475	0
597	Transfers-Out	6,900	0	0	0
Total Nonoperating Expenditures:		6,900	8,901	475	
Increase (Decrease) in Cash and Investments		-6,226	-80	649	39
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	13,062	17,707	1,087	29,046

The accompanying notes are an integral part of this Statement.

BARS Code		113 Paths and Trails	205 2008 G/O Bond	206 2008 G/O Bond Reserve	230 1996 G/O Bond
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	155,850	0
30880	Beg Fund Bal-Unreserved	40,926	69,944	0	83,490
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	188,721	0	212,325
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	1,097	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	55	307	0	189
Total Operating Revenues:		1,152	189,028		212,514
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:					
Net Operating Increase (Decrease):		1,152	189,028	0	212,514
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	150,551	0	223,803
594-595	Capital Expenditures	1,515	0	0	0
597	Transfers-Out	0	55,000	5,850	0
Total Nonoperating Expenditures:		1,515	205,551	5,850	223,803
Increase (Decrease) in Cash and Investments		-363	-16,523	-5,850	-11,289
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	150,000	0
50880	End Fund Balance-Unreserved	40,563	53,421	0	72,201

The accompanying notes are an integral part of this Statement.

BARS Code		302 Capital Projects Reserve	303 Building Maintenance	310 Police Mitigation Reserve	311 Parks Impact Fee Reserve
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	237,218	131,516	22,081	23,310
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	97,034	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	2,421	18,000
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	350	2,864	19	33
Total Operating Revenues:		97,384	2,864	2,440	18,033
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:					
Net Operating Increase (Decrease):		97,384	2,864	2,440	18,033
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	2,300	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	55,000	0	0
Total Nonoperating Revenues:		2,300	55,000		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	2,000	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	127,834	0	13,622	10,000
Total Nonoperating Expenditures:		129,834		13,622	10,000
Increase (Decrease) in Cash and Investments		-30,150	57,864	-11,182	8,033
Ending Cash and Investments					
50810	End Fund Bal-Reserved	207,068	189,380	10,899	31,343
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		312 Fire Impact Fee Reserve	401 Sewer	412 Solid Waste	425 Stormwater
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	24,024	2,448,114	175,051	0
30880	Beg Fund Bal-Unreserved	0	829,310	221,917	123,438
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	73,043
340	Charges for Goods and Services	4,316	3,176,466	1,726,436	407,436
350	Fines & Penalties	0	184	0	0
360	Miscellaneous Revenues	32	44,868	14,990	7,349
Total Operating Revenues:		4,348	3,221,518	1,741,426	487,828
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	1,615,757	1,459,178	341,976
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:			1,615,757	1,459,178	341,976
Net Operating Increase (Decrease):		4,348	1,605,761	282,248	145,852
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	1,432,869	312	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	15,922
Total Nonoperating Revenues:			1,432,869	312	15,922
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	1,131,800	0	0
591-593	Debt Service	0	1,062,382	0	194
594-595	Capital Expenditures	0	272,521	23,456	29,966
597	Transfers-Out	21,289	350,525	226,425	32,025
Total Nonoperating Expenditures:		21,289	2,817,228	249,881	62,185
Increase (Decrease) in Cash and Investments		-16,941	221,402	32,679	99,589
Ending Cash and Investments					
50810	End Fund Bal-Reserved	7,083	2,609,794	233,266	96,162
50880	End Fund Balance-Unreserved	0	889,032	196,381	126,865

The accompanying notes are an integral part of this Statement.

BARS Code		501 Equipment Replacement
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	588,070
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	68,715
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	404
Total Operating Revenues:		69,119
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities	0
540	Transportation	51,729
550	Natural and Economic Environment	0
560	Social Services	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		51,729
Net Operating Increase (Decrease):		17,390
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	47,108
391-393	Debt Proceeds	0
397	Transfers-In	472,500
Total Nonoperating Revenues:		519,608
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	193,671
591-593	Debt Service	515,013
594-595	Capital Expenditures	325,868
597	Transfers-Out	0
Total Nonoperating Expenditures:		1,034,552
Increase (Decrease) in Cash and Investments		-497,554
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	90,516

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	621 Agency Trust	625 Municipal Court Trust
308	Beginning Cash and Investments	2,600	1,950	650
388 and 588	Prior Period Adjustments, net	0	0	0
310-360	Revenues	0	0	0
380-390	Other Increases and Financing Sources	206,175	31,788	174,387
510-570	Expenditures	0	0	0
580-590	Other Decreases and Financing Uses	206,150	31,788	174,362
Increase (Decrease) in Cash and Investments		25	0	25
508	Ending Cash and Investments	2,625	1,950	675

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, 407 Revenue Bond, 410 Capital Projects Reserve and 411 Revenue Bond Reserve. Also, 412 Solid Waste Operations and 413 Solid Waste

Reserve are rolled into 412 Solid Waste Operations Fund; and 425 Stormwater Operations and 426 Stormwater Reserve are rolled into 425 Stormwater Operations Fund.

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account for assets that the City of Sedro-Woolley holds for others in an agency capacity. Prior to 2012, the City did not report activity in the Municipal Court Trust Account; however rolled up the ending cash balance into the general funds. This activity and cash balances are now being reported in Fund 625 on the annual report.

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 2013 primarily related to changes in construction projects, awarding of grants, Public Safety vehicle acquisitions, payoff of vehicle loans, additional police overtime due to multiple extensive investigations as well as other changes of a more routine nature.

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	\$4,962,182	\$4,166,981	\$795,201
Parks Fund	651,413	517,350	134,063
Cemetery Fund	150,963	125,855	25,108
Street Fund	936,323	757,763	178,560
Arterial Street Fund	7,443,890	4,456,983	2,986,907
Library Fund	453,658	309,324	144,334
Cemetery Endowment Fund	118,646	0	118,646
Parks Reserve Fund	615	63	552
Lodging Tax Fund	49,813	38,662	11,151
Special Investigations Fund	22,802	13,137	9,665
Dog Fund	1,938	527	1,411
Code Enforcement Fund	29,027	0	29,027
Paths and Trails Fund	42,101	1,515	40,586
G/O 2008 Bond Redemption Fund	265,394	205,550	59,844
G/O 2008 Bond Reserve Fund	155,850	5,850	150,000
G/O 1996 Bond Redemption Fund	288,715	223,803	64,912
Capital Projects Reserve Fund	427,618	129,834	297,784
Building Maintenance Reserve Fund	188,980	0	188,980
Police Mitigation Reserve Fund	22,101	13,622	8,479
Parks Impact Fee Reserve Fund	35,311	10,000	25,311
Fire Impact Fee Reserve Fund	25,554	21,289	4,265
PWTF Sewer Construction Fund	0	0	0
Sewer Operations Fund	3,711,430	3,177,314	534,116
Sewer Facilities Reserve Fund	615,646	0	615,646
1998 Sewer Revenue Bond Fund	807,855	429,002	378,853
Sewer Capital Projects Reserve Fund	3,538,626	1,990,180	1,548,446
1998 Sewer Revenue Bond Reserve Fund	376,482	0	376,482
Solid Waste Operations Fund	1,950,668	1,767,038	183,630
Solid Waste Reserve Fund	175,299	0	175,299
Stormwater Operations Fund	639,993	500,277	139,716
Stormwater Reserve Fund	80,500	0	80,500
Equipment Replacement Fund	1,200,262	1,086,281	113,981
Agency Trust	41,950	31,788	10,162

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 with bond reserve funds and cemetery endowment fund interest assigned to the bond redemptions funds and cemetery operating fund.

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 Investmentsg. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the City of Sedro-Woolley 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 \$262,896.

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 Debt Service Requirementsj. 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 program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2013, there are 236 members in the program.

The program 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 program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim, while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover

insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,247,000 to cap the total claims paid by the program 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 program 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 (\$10,000 for pumps and motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the program 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 program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2013 were \$1,423,059.

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 loan with a 12/31/13 balance of \$150,000 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 12/31/13.

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

<u>Fund</u>	<u>Purpose</u>	<u>12/31/13 Balance</u>
Parks Reserve Fund 107	Community Donations	\$ 152
Capital Projects Reserve Fund 302	REET monies	207,068
Building Maintenance Reserve Fund 303	Major building repairs	189,380
Police Mitigation Reserve Fund 310	SEPA payments	10,899
Parks Impact Fee Reserve Fund 311	GMA payments	31,343
Fire Impact Fee Reserve Fund 312	GMA payments	7,083
Sewer Facilities Reserve Fund 402	Major plant equipment	693,975
Sewer Capital Projects Reserve Fund 410	Future projects/Debt	1,539,337
Solid Waste Reserve Fund 413	Future enhancements	233,266
Stormwater Reserve Fund 426	Future enhancements	96,162

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, 2013 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>Total</u>
Local Government Investment Pool	\$4,553,982	\$ 0	\$4,553,982
TOTAL	<u>\$4,553,982</u>	<u>\$ 0</u>	<u>\$4,553,982</u>

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 2013 was \$2.549548 per \$1,000 on an assessed valuation of \$696,093,913 for a total regular levy of \$1,774,725. In addition, the City levied \$0.3076083 per \$1,000 on an assessed valuation of \$682,686,293 for the Public Safety Building General Obligation Bond for a total additional levy of \$210,000.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Sedro-Woolley and summarizes the city's debt transactions for the year ended December 31, 2013.

The debt service requirements for general obligation bonds, revenue bonds, public works loans, and notes payable including both principle and interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2014	376,150	424,700	640,562	1,441,412
2015	378,150	425,200	637,611	1,440,961
2016	389,750	425,100	634,659	1,449,509
2017	150,549	419,500	631,707	1,201,756
2018	150,549	423,300	628,755	1,202,604
2019-2023	752,749	0	3,089,500	3,842,249
2024-2028	752,749	0	2,163,196	2,915,945
2029-2033	752,749	0	0	752,749
2034-2038	752,749	0	0	752,749
2039-2043	752,749	0	0	752,749
2044-2048	<u>744,203</u>	<u>0</u>	<u>0</u>	<u>744,203</u>
TOTALS	\$5,953,096	\$ 2,117,800	\$8,425,990	\$16,496,886

In April, 2012 the City acquired 9.52 acres of parkland through a donation/purchase agreement. The Houser family sold this land to the City at half the fair market value with the requirement that the land be used for playfields. The City paid \$100,000 at close and signed a ten-year note payable for the remaining \$100,000 with annual payments of \$10,000 at no interest.

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 2013 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 Fund received and repaid short term loans under this resolution in 2013.

The City also utilized Resolution 850-11 authorizing short-term interfund loans from the Sewer Capital Projects Reserve Fund to the Arterial Streets Fund for cash flow purposes due to the timing of reimbursements for traffic projects, not to exceed \$1,000,000. 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 City Council passed resolution 856-11 authorizing a three-year short-term interfund loan from the Sewer Capital Projects Reserve Fund to the Current Expense Fund to retire a higher interest rate loan with USDA for the purchase of a fire engine. 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 Sedro-Woolley voters approved Proposition 1to increase local sales and use tax within the City limits by one-tenth of one percent (.001), effective April 1, 2013, for the purpose of acquiring public safety vehicles and equipment. As a result, the public safety vehicles and the attached debt were transferred to the Equipment Replacement Fund.

The following table displays interfund loan activity during 2013:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 01/01/13</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/13</u>
Stormwater	Sewer Reserve	\$139,003	0	0	\$139,003
Parks	Capital Project	0	2,000	2,000	0
Equip Rep (Fire)	Sewer Reserve	193,514	0	193,514	0
Arterial Streets	Sewer Reserve	<u>0</u>	<u>1,131,800</u>	<u>1,111,000</u>	<u>20,800</u>
TOTALS		\$332,517	\$1,133,800	\$1,306,514	\$159,803

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. Seven (7) retirees received benefits during 2013 and \$53,838 was paid out for those benefits during the year.

City of Sedro-Woolley

Schedule of Liabilities

For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	251.11	City Hall - 08/08	8/28/2048	2,796,018		35,214	2,760,804
	251.11	Ladder Truck - 2/10	2/8/2030	486,697		486,697	0
	251.14	Public Safety Building - 02/05	12/1/2016	830,000		190,000	640,000
	259.11	Compensated Absences		175,381		4,138	171,243
	263.61	Winnie Houser Playfields	3/15/2023	100,000		10,000	90,000
		Total General Obligations:		4,388,096		726,049	3,662,047
Revenue Obligations							
	252.11	Sewer Revenue - 05/08	6/1/2018	2,265,000		345,000	1,920,000
	259.12	Compensated Absences		88,815	2,838		91,653
	263.82	PWTF Sewer - 05/05	7/1/2025	497,612		38,278	459,334
	263.82	PWTF Sewer - 07/06	7/1/2026	4,900,000		350,000	4,550,000
	263.82	PWTF Sewer - 07/08	7/1/2028	3,233,310		202,082	3,031,228
		Total Revenue Obligations:		10,984,737	2,838	935,360	10,052,215
		Total Liabilities:		15,372,833	2,838	1,661,409	13,714,262

The accompanying notes to the financial statements are an integral part of this schedule

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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