



Washington State Auditor's Office

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Financial Statements Audit Report

City of Sedro-Woolley

Skagit County

For the period January 1, 2014 through December 31, 2014

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Washington State Auditor's Office

December 21, 2015

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
OLYMPIA, WA

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d. Cash and Investments

See Note 2, Deposits and Investments.

e. Capital Assets

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

f. Compensated Absences

Vacation leave may be accumulated up to 280 hours and is payable upon separation or retirement. In the unlikely event that all employees separated from employment at fiscal year end, the amount that would be due to employees to buy-out vested leave balances is \$263,084. 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. Payments are recognized as expenditures when paid.

g. Long-Term Debt

See Note 4, Debt Service Requirements.

h. Other Financing Sources Or Uses

The City of Sedro-Woolley's Other Financing Sources or Uses consist of Interfund Transfers.

i. Risk Management

The City of Sedro-Woolley is a member of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: property, including automobile comprehensive and collision, equipment breakdown and crime protection; and liability, including general, automobile and wrongful acts, which are included to fit 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. The standard member deductible is \$1,000 for each claim (deductible may vary per member), 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 \$3,259,396 to cap the total claims paid by the program in any one policy term.

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, which may vary per members with the exception of Pumps & Motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

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. On July 21, 2014, the Board passed a resolution changing the CIAW’s renewal date from September 1, to December 1 beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year will begin on December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members/brokers with Canfield, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended December 1, 2014 were \$1,817,654.59.

j Reserved Portion of Ending Cash and Investments

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

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

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
G/O 2008 Bond Reserve Fund 206	\$150,000	USDA City Hall
1998 Sewer Revenue Bond Reserve Fund 411	376,482	Sewer Plant
Parks Reserve Fund 107	15,157	Babe Ruth ball field

NOTE 2 – DEPOSITS AND INVESTMENTS

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

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

Investments are reported at fair value. Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	<u>City of Sedro-Woolley's Own Investments</u>	<u>Investments held as an Agent for Others</u>	<u>Total</u>
Local Government Investment Pool	\$5,373,044	\$ 0	\$5,373,044
TOTAL	<u>\$5,373,044</u>	<u>\$ 0</u>	<u>\$5,373,044</u>

NOTE 3 - PROPERTY TAX

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

The City of Sedro-Woolley's regular levy for 2014 was \$2.507929 per \$1,000 on an assessed valuation of \$710,371,529 for a total regular levy of \$1,781,561. In addition, the City levied \$0.3012776 per \$1,000 on an assessed valuation of \$697,031,492 for the Public Safety Building General Obligation Bond for a total additional levy of \$210,000.

NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Sedro-Woolley and summarizes the City's debt transactions for the year ended December 31, 2014.

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>
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	150,549	0	625,804	776,353
2020-2024	752,749	0	3,064,741	3,817,490
2025-2029	752,749	0	1,562,151	2,314,900
2030-2034	752,749	0	0	752,749
2035-2039	752,749	0	0	752,749
2040-2044	752,749	0	0	752,749
2045-2049	<u>593,653</u>	<u>0</u>	<u>0</u>	<u>593,653</u>
TOTALS	\$5,576,945	\$ 1,693,100	\$7,785,428	\$15,055,473

NOTE 5 - PENSION PLANS

Substantially all City of Sedro-Woolley full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) or Law Enforcement 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 6 – INTERFUND LOANS

The City utilized Resolution 850-11 authorizing short-term interfund loans from the Sewer Capital Projects Reserve Fund to the Arterial Streets Fund for cash flow purposes due to the timing of reimbursements for traffic projects, not to exceed \$1,000,000. 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 2014:

<u>Borrowing</u> <u>Fund</u>	<u>Lending</u> <u>Fund</u>	<u>Balance</u> <u>01/01/14</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/14</u>
Stormwater	Sewer Reserve	\$139,003	0	12,984	\$126,019
Arterial Streets	Sewer Reserve	<u>20,800</u>	<u>630,500</u>	<u>651,300</u>	<u>0</u>
TOTALS		\$159,803	\$ 630,500	\$ 664,284	\$126,019

NOTE 7 – OTHER DISCLOSURES

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 2014 and \$50,284 was paid out for those benefits during the year.

Component Unit: On November 25, 2014, the City Council voted to establish the Sedro-Woolley Transportation Benefit District within the corporate limits of the City of Sedro-Woolley. The City Council serves as the TBD Board; the City Mayor serves as TBD Chairman and City Staff act as TBD staff. Per the Interlocal Agreement, the City pays for all TBD costs. The TBD will be included in the City’s financial information as a Fiduciary Fund and will file its own annual report with the State Auditor’s Office as required.

Change in Financial Presentation: Due to a clearer understanding of classification of reserved and unreserved cash and investments, several funds which were previously reported as reserved were re-evaluated and are reported as unreserved at 12/31/14. It was determined that the limitations imposed were not a specific purpose but only a generic, functional limitation which was already imposed by the purpose of these funds.

**City of Sedro-Woolley
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	City Hall - 08/08	8/28/2048	2,760,804	-	36,667	2,724,137
251.14	Public Safety Building - 02/05	12/1/2016	640,000	-	200,000	440,000
259.11	Compensated Absences - GO		171,243	-	3,320	167,923
263.61	Winnie Houser Playfields - 04/12	3/15/2023	90,000	-	10,000	80,000
	Total General Obligations:		3,662,047	-	249,987	3,412,060
Revenue Obligations						
252.11	Sewer Revenue - 05/08	6/1/2018	1,920,000	-	355,000	1,565,000
259.12	Compensated Absences - Revenue		91,653	3,508	-	95,161
263.82	PWTF Sewer - 05/05	7/1/2025	459,334	-	38,278	421,056
263.82	PWTF Sewer - 07/06	7/1/2026	4,550,000	-	350,000	4,200,000
263.82	PWTF Sewer - 07/08	7/1/2028	3,031,228	-	202,082	2,829,146
	Total Revenue Obligations:		10,052,215	3,508	945,360	9,110,363
	Total Liabilities:		13,714,262	3,508	1,195,347	12,522,423

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.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Adam Wilson Adam.Wilson@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov