



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

City of Stanwood

Snohomish County

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

Published December 21, 2015

Report No. 1015879





Washington State Auditor's Office

December 21, 2015

Council
City of Stanwood
Stanwood, Washington

Report on Financial Statements

Please find attached our report on the City of Stanwood'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

TABLE OF CONTENTS

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	4
Independent Auditor’s Report On Financial Statements	7
Financial Section.....	10
About The State Auditor’s Office.....	4:

**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 Stanwood
Snohomish County
January 1, 2014 through December 31, 2014**

Council
City of Stanwood
Stanwood, 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 Stanwood, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 9, 2015.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 9, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Stanwood Snohomish County January 1, 2014 through December 31, 2014

Council
City of Stanwood
Stanwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Stanwood, Snohomish County, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Stanwood, for the year ended December 31, 2014, 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 Stanwood, as of December 31, 2014, 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 December 9, 2015 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
OLYMPIA, WA

December 9, 2015

FINANCIAL SECTION

**City of Stanwood
Snohomish County
January 1, 2014 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014

City of Stanwood
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund
Beginning Cash and Investments				
30810	Reserved	683,173	-	-
30880	Unreserved	13,598,146	3,103,215	160,814
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	4,852,485	4,465,496	-
320	Licenses and Permits	179,066	160,489	18,576
330	Intergovernmental Revenues	1,659,714	157,021	130,777
340	Charges for Goods and Services	3,890,253	307,821	10,000
350	Fines and Penalties	66,524	29,982	-
360	Miscellaneous Revenues	483,163	392,112	782
Total Operating Revenues:		<u>11,131,206</u>	<u>5,512,921</u>	<u>160,136</u>
Operating Expenditures				
510	General Government	1,044,648	1,030,405	-
520	Public Safety	3,110,040	3,110,040	-
530	Utilities	2,042,013	-	-
540	Transportation	289,757	-	289,757
550	Natural and Economic Environment	817,746	817,746	-
560	Social Services	1,367	1,367	-
570	Culture and Recreation	491,173	491,173	-
Total Operating Expenditures:		<u>7,796,743</u>	<u>5,450,730</u>	<u>289,757</u>
Net Operating Increase (Decrease):		3,334,462	62,190	(129,621)
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	21,299	21,299	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	1,175,337	318,000	122,000
Total Nonoperating Revenues:		<u>1,196,636</u>	<u>339,299</u>	<u>122,000</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	300	-	-
591-593	Debt Service	1,676,505	-	-
594-595	Capital Expenditures	4,417,045	394,544	4,077
597	Transfers-Out	1,175,337	200,337	-
Total Nonoperating Expenditures:		<u>7,269,187</u>	<u>594,881</u>	<u>4,077</u>
Net Increase (Decrease) in Cash and Investments:		(2,738,089)	(193,392)	(11,698)
Ending Cash and Investments				
50810	Reserved	688,873	-	-
50880	Unreserved	10,854,358	2,909,822	149,116

The accompanying notes are an integral part of this statement.

102 Street Impact Fee Fund	104 Park Improvement Fund	105 Fire Impact Fees	203 LID Guarantee Fund	205 Debt Service Fund	207 LID 92-1 Debt Service Fund
-	-	-	-	-	-
940,738	170,998	25,194	4,921	57,113	30,275
-	-	-	-	-	-
-	-	-	-	221,596	-
-	-	-	-	-	-
82,549	1,289,367	-	-	-	-
3,062	-	1,995	-	-	-
-	-	-	-	-	-
4,251	663	21	86	360	88
89,862	1,290,030	2,016	86	221,956	88
14,242	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
14,242	-	-	-	-	-
75,620	1,290,030	2,016	86	221,956	88
-	-	-	-	-	-
-	-	-	-	-	-
-	370,000	-	-	-	-
-	370,000	-	-	-	-
-	-	-	-	-	-
-	-	-	-	224,102	-
246,006	1,706,739	-	-	-	-
-	-	-	-	-	-
246,006	1,706,739	-	-	224,102	-
(170,386)	(46,709)	2,016	86	(2,146)	88
-	-	-	-	-	-
770,352	124,290	27,210	5,007	54,967	30,363

The accompanying notes are an integral part of this statement.

320 REET - Capital Improvements	321 REET - Growth Management	401 Sewer Fund	410 Drainage Fund	421 Water Fund
-	-	467,571	-	215,602
684,232	476,734	3,563,296	999,975	3,380,643
-	-	-	-	-
82,697	82,697	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	1,627,118	453,227	1,487,031
-	-	-	-	36,542
3,297	2,758	44,345	4,509	29,890
<u>85,994</u>	<u>85,455</u>	<u>1,671,463</u>	<u>457,736</u>	<u>1,553,463</u>
-	-	-	-	-
-	-	-	-	-
-	-	847,858	303,388	890,767
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>847,858</u>	<u>303,388</u>	<u>890,767</u>
85,994	85,455	823,605	154,348	662,696
-	-	-	-	-
-	-	-	-	-
-	-	-	-	365,337
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>365,337</u>
-	-	-	-	300
-	-	578,900	-	873,503
-	-	194,076	241,399	1,630,204
588,000	87,000	-	300,000	-
<u>588,000</u>	<u>87,000</u>	<u>772,976</u>	<u>541,399</u>	<u>2,504,008</u>
(502,006)	(1,545)	50,629	(387,051)	(1,475,974)
-	-	468,857	-	220,016
182,226	475,189	3,612,639	612,923	1,900,255

The accompanying notes are an integral part of this statement.

City of Stanwood
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	630 Suspense Fund	677 Transportation Benefit District
308	Beginning Cash and Investments	48,572	6,184	42,388
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	259,987	-	259,987
380-390	Other Increases and Financing Sources	52,955	52,955	-
510-570	Expenditures	30,345	-	30,345
580-590	Other Decreases and Financing Uses	66,701	47,616	19,084
Net Increase (Decrease) in Cash and Investments:		215,896	5,339	210,557
508	Ending Cash and Investments	264,468	11,523	252,945

The accompanying notes are an integral part of this statement.

CITY OF STANWOOD
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

Note 1 - Summary of Significant Accounting Policies

The City of Stanwood was incorporated on October 12, 1903 and operates under the laws of the state of Washington applicable to an optional municipal code city. The City is a general purpose local government and provides public safety, fire prevention, street improvement, parks, health, ambulance, social services, and water, drainage and sewer utilities.

The City of Stanwood reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City.

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.

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City adopts annual appropriated budgets for all required funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

		2014 Final Appropriated Amounts	Actual Expenditures	Variance
	Fund			
General Fund				
	001 - General Fund	\$ 5,767,151	\$ 5,651,067	\$ 116,084
	107 - Equipment Reserve Fund	\$ 148,600	\$ 56,676	\$ 91,924
	109 - Contingency Fund	\$ -	\$ -	\$ -
	110 - Building Improvement Fund	\$ 1,066,671	\$ 337,868	\$ 728,803
	Total General Fund	\$ 6,982,422	\$ 6,045,611	\$ 936,811
Street Fund				
	101 - Street Fund	\$ 312,177	\$ 293,835	\$ 18,342
	102 - Street Impact Fee Fund	\$ 76,125	\$ 76,117	\$ 8
	103 - Street Construction Fund	\$ 481,500	\$ 246,006	\$ 235,494
	Total Street Fund	\$ 869,802	\$ 615,958	\$ 253,844
	104 - Park Improvement Fund	\$ 2,630,500	\$ 1,706,739	\$ 923,761
	105 - Fire Impact Fees	\$ 25,000	\$ -	\$ 25,000
	120 - REET - Capital Improvements	\$ 588,000	\$ 588,000	\$ -
	121 - REET - Growth Management	\$ 87,000	\$ 87,000	\$ -
	205 - Debt Service Fund	\$ 225,050	\$ 224,102	\$ 948
Sewer Fund				
	401 - Sewer Fund	\$ 1,795,787	\$ 1,697,558	\$ 98,229
	403 - Sewer Construction Fund	\$ 1,091,000	\$ 187,305	\$ 903,695
	405 - Sewer Plant Investment Fund	\$ 194,280	\$ 194,280	\$ -
	452 - Sewer Bond Reserve	\$ -	\$ -	\$ -
	457 - Sewer Equipment Reserve	\$ 66,000	\$ 6,770	\$ 59,230
	Total Sewer Fund	\$ 3,147,067	\$ 2,085,914	\$ 1,061,153
Drainage Fund				
	410 - Drainage Fund	\$ 789,151	\$ 726,588	\$ 62,563
	411 - Drainage Construction Fund	\$ 722,000	\$ 236,866	\$ 485,134
	412 - Drainage Plant Investment Fund	\$ 78,000	\$ 78,000	\$ -
	458 - Drainage Equipment Reserve	\$ 69,000	\$ 4,533	\$ 64,467
	Total Drainage Fund	\$ 1,658,151	\$ 1,045,987	\$ 612,164
Water Fund				
	421 - Water Fund	\$ 1,949,353	\$ 1,801,201	\$ 148,152
	422 - Water Construction Fund	\$ 2,404,600	\$ 1,565,927	\$ 838,673
	423 - Cedar Home Plant Investment	\$ 139,519	\$ 139,519	\$ -
	424 - Water Plant Investment Fund	\$ 180,000	\$ 180,000	\$ -
	451 - Water Bond Reserve	\$ 209,350	\$ 209,350	\$ -
	459 - Water Equipment Reserve	\$ 89,000	\$ 39,446	\$ 49,554
	Total Water Fund	\$ 4,971,822	\$ 3,935,443	\$ 1,036,379
	677 - Transportation Benefit District	\$ 203,304	\$ 49,430	\$ 153,874
	Total	\$ 21,388,118	\$ 16,384,183	\$ 5,003,935

Budgeted amounts are authorized to be transferred between any fund; 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 Council.

D. Cash and Investments

See Note 3, *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 two years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours, but in no case exceed 240 hours at the end of the calendar year. Upon termination, these employees may receive compensation for up to 240 hours of accrued vacation.

Sick leave may be accumulated for up to 640 hours for non-represented, public works and administrative employees. Upon retirement or death, employees receive 33% of unused sick leave.

Compensatory time may be accumulated up to 100 hours for non-exempt, administrative and public works employees, but in no case may exceed 100 hours at the end of any payroll period. Upon separation or retirement, employees receive payment for up to 100 hours of unused compensatory time.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The City's *Other Financing Sources* or *Uses* consist of operating transfers in, operating transfers out, and bond proceeds.

I. Risk Management

The City of Stanwood is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 175 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

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 the City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of \$688,873, as follows:

Fund	Amount	Description
Sewer	\$ 468,857	Sewer Bond Reserve Sub-fund
Water	\$ 220,016	Water Bond Reserve Sub-fund
Total	\$ 688,873	

Note 2 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed (at/after) the end of each month.

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City's regular levy for the year 2014 was \$3.21088508 per \$1,000 on an assessed valuation of \$638,609,620 for a total regular levy of \$2,050,502.

In addition, the City levied \$0.48460725 per \$1,000 assessed valuation of \$638,609,620 for a total additional permanent EMS levy of \$309,475.

In 2014, the City also levied \$0.04233246 per \$1,000 on an assessed valuation of \$633,664,055 for general obligation bond debt service (Stanwood G.O. Bond 1994) for an additional levy of \$26,825.

In 2014, the City also levied \$0.31084572 per \$1,000 on an assessed valuation of \$633,664,055 for general obligation bond debt service (Stanwood G.O. Bond 2000) for an additional levy of \$196,975.

Note 3 – Deposits and Investments

Deposits and Investments

It is the City'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 Corporation and/or the Washington Public Deposit Protection Commission). All investments are insured, registered or held by the City or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2014 are as follows:

Type of Investment	Balance
Local Government Investment Pool	\$ 4,066,443
Money Market	\$ 903,510
Certificates of Deposit	\$ 2,502,752
Agency	\$ 3,233,071
Total	\$ 10,705,776

Note 4 – Debt Service Requirements

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

The debt service requirements for general obligation bonds, revenue bonds and other debt, including both principal and interest, are as follows:

	General Obligation Debt	Revenue Bonds	Other	Total Debt
2015	\$ 201,800	\$ 211,200	\$ 908,286	\$ 1,321,286
2016	\$ 195,400	\$ 211,800	\$ 906,192	\$ 1,313,392
2017	\$ 199,000	\$ 212,200	\$ 904,098	\$ 1,315,298
2018	\$ 197,200	\$ 209,200	\$ 902,004	\$ 1,308,404
2019	\$ 200,200	\$ 209,400	\$ 899,909	\$ 1,309,509
2020-2024	\$ 202,800	\$ 1,057,400	\$ 4,468,135	\$ 5,728,335
2025-2029	\$ -	\$ 1,057,400	\$ 737,848	\$ 1,795,248
2030-2034	\$ -	\$ 424,200	\$ -	\$ 424,200
Totals	\$ 1,196,400	\$ 3,592,800	\$ 9,726,472	\$ 14,515,672

Note 5 - Pension Plans

Substantially all the City's full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) 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 – Joint Ventures and Jointly Governed Organizations

Joint Venture - SNO PAC

The City is involved in a joint operation with other governmental entities in the establishment and operation of the Snohomish County Police Staff and Auxiliary Services Center, presently known as SNO PAC. The city, in conjunction with (currently 33) other governmental entities, participates in this joint venture. Control of SNO PAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. Using the same criteria applied to the other organizations to determine the reporting entity, this joint venture is not included in the city's annual financial statements.

SNO PAC was created under the Interlocal Cooperation Act, as codified in RCW 39.34, the needed statutory authority and opportunity for Snohomish County and the Cities, towns, fire districts, hospital districts and miscellaneous service districts to enter into a contract and agreement to cooperatively establish, maintain and operate a support communications center.

SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid. The city paid SNOPAC \$80,781.08 in 2014 for these services.

Joint Venture – Alliance for Housing Affordability (AHA)

In September 2013, the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Snohomish, the Town of Woodway and Snohomish County joined together to establish the Alliance for Housing Affordability (AHA). The Agreement was amended in May 2014 to add the City of Arlington, and then again in June 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by member governments.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

Each member government is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member governments are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first three years of organizational start-up. The City of Stanwood's equity share to date is as follows:

Fiscal Year 7/1/XX - 6/30/XX	AHA's Total Fiscal Year Budget	Stanwood's Share of Budget	Stanwood's Share as % of Total AHA Budget
2013	\$ 89,850	\$ -	0.00%
2014	\$ 92,543	\$ -	0.00%
2015	\$ 123,464	\$ -	0.00%
2016	\$ 145,590	\$ 1,061	0.73%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information can be obtained from Sonja Springer, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace, WA 98043 (or email: sspringer@ci.mlt.wa.us) or from Kristina Gallant, Housing Analyst, Alliance for Affordability, 12625 4th Avenue W, Suite 200, Everett, WA 98204.

Note 7 - Other Disclosures – Major Contracted Services

Police Contract

In 2013, the City extended its contract with Snohomish County to provide law enforcement services for an additional five (5) years, from 2014 through 2018 as follows:

Table 1 – Police Contract

Year	Annual Contract	Increase	Percentage Increase
2013	\$ 1,407,373	\$ -	
2014	\$ 1,478,296	\$ 70,923	5.0%
2015	\$ 1,567,042	\$ 88,746	6.0%
2016	\$ 1,656,503	\$ 89,461	5.7%
2017	\$ 1,666,371	\$ 9,868	0.6%
2018	\$ 1,717,688	\$ 51,317	3.1%

Fire Contract

Effective April 1, 2012, the City contracted with North County Fire District to provide fire protection and ambulance services. The contract term is for nineteen years and nine months, and expires at the end of 2031. Annual payments to North County Fire District for fire protection are as follows:

Table 2 – Fire & EMS Contract

Year	Annual Contract	Increase	Percentage Increase
2012 (Note A)	\$ 959,544	\$ -	
2013	\$ 1,279,392	\$ -	0%
2014	\$ 1,279,392	\$ -	0%
2015	\$ 1,279,392	\$ -	0%
2016	\$ 1,279,392	\$ -	0%
2017 (Note B)	\$ 319,848	\$ -	0%

Note A: The fire contract between North County Fire District and the City of Stanwood commenced on April 1, 2012. During the first five (5) years of the contract, the maximum rate at which the city may be charged for fire and EMS services shall be the Fire Authority's General Fire and EMS levy rate times the City's 2012 Assessed Valuation and in no event shall said rate be greater than \$2.00 per \$1,000 of assessed valuation. The \$1,279,392 annual contract amount was computed as follows:

Assessed Valuation for the City of Stanwood for 2012:	\$639,696,397
Divided by \$1,000:	/ \$1000
Result:	\$ 639,696
Times \$2	X \$2.00
Annual Charge for Service	<u>\$ 1,279,392</u>

Note B: The initial five (5) year term, for purposes of the guaranteed annual rate, will expire on March 31, 2017. Per the contract, the new annual rate would be based on levy rate normally charged by the fire district times the current assessed valuation of the city, unless another method can be negotiated between the parties.

The City and the Fire District have signed a memorandum of understanding to negotiate an annual rate that will be mutually beneficial to both parties after the initial 5-year contract period expires March 31, 2017.

Library Contract/Annexation into Library District in 2016

The city has contracted with Sno-Isle Library District for the past several years to provide library services. The citizens of the City of Stanwood passed a ballot measure in 2014 to annex into the Sno-Isle Library District, which will become effective on January 1, 2016. Therefore, the current contract between the city and Sno-Isle will terminate on December 31, 2015. During 2014, the City paid \$285,988 under the terms of this contract, which was an increase of \$34,212, or 13.6%, over 2013 payments. For 2015, the contracted amount due is \$310,987, which is \$24,999, or 8.7%, greater than 2014.

Transportation Benefit District

The Stanwood Transportation Benefit District (TBD) was established as a quasi-municipal corporation, an independent taxing district on November 19, 2012. The District is a governmental special purpose entity governed by a separate board of directors made up of existing city council members. The TBD was created for the purpose of acquiring, constructing, improving, providing and funding transportation improvements within the District, which has identical boundaries as the City of Stanwood limits.

On February 12, 2013 the citizens passed a ballot measure to enact a 0.2% (two tenths of one percent) sales tax increase to be collected within the District effective July 1, 2013. The additional sales tax collected by the TBD amounts to about \$250,000 per year and is used to support transportation projects within the City of Stanwood.

Under an interlocal agreement between the city and the TBD, city staff is responsible for managing the business of the TBD, and it is treated as an agency fund on the city's annual financial report. The Stanwood Transportation District, as a separate legal entity, also files a separate annual financial report with the State Auditor each year.

Reserved Portion of Beginning and End Cash and Investments

Section 3.1.8.20 of the BARS manual provides guidance for determining reserved cash and investments as follows:

*3.1.8.20 BARS accounts 30810 and 50810 define the beginning and ending **reserved cash and investments** as the amounts of cash and investments with specific purpose or use restrictions imposed on them by external parties (e.g., enabling legislation, grantors, creditors, etc.) or from formal internal commitments. Internal commitments are specific constraints imposed by the highest level of authority within the government (board of commissioners, city council, board of directors, board of supervisors, etc.) through the most binding formal action (ordinance, resolution) that requires a similar formal action on the same level to remove them.*

The city has interpreted State Auditor guidelines regarding reserved cash and investments very narrowly and conservatively, and determined that the city had only two reserved cash items as presented in note 1(J) – Reserved Portion of Ending Cash and Investments, restated below as follows:

Fund	Amount	Description
Sewer	\$ 468,857	Sewer Bond Reserve Sub-fund
Water	\$ 220,016	Water Bond Reserve Sub-fund
Total	\$ 688,873	

Both items were reserved due to external restrictions imposed by the bond/debt issuers. The city had no internal restrictions imposed by the city council, its governing body. Reserved beginning cash and investments were adjusted to reflect this same approach, and as such, have been restated as follows:

	001 General Fund	401 Sewer Fund	410 Drainage Fund	421 Water Fund
2013 Ending Cash and Investments as originally stated				
Reserved	1,369,447	591,569	69,352	305,332
Unreserved	1,733,767	3,439,297	930,623	3,290,912
Total	3,103,214	4,030,866	999,975	3,596,244
2014 Beginning Cash and Investments as restated				
Reserved	-	467,570	-	215,602
Unreserved	3,103,214	3,563,296	999,975	3,380,642
Total	3,103,214	4,030,866	999,975	3,596,244

Health and Welfare

The City of Stanwood is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Significant Commitments or Obligations

OPEB

The city has a commitment to pay for post employment benefits for employees that belong to LEOFF1. These benefits include medical insurance premiums. One retiree received benefits during the year and \$18,998 was paid out for those benefits during the year.

Construction Commitments

The city has active construction projects as of December 31, 2014. The projects include remodels of the police station and city hall.

At year-end the city's commitment with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Police Department Remodel	\$ -	\$ 192,576
City Hall Remodel	\$ -	\$ 169,565
Total	\$ -	\$ 362,141

City of Stanwood
Schedule of Liabilities
For the Year Ended December 31, 2014

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligations						
251.12	2007 G.O. Bond	12/1/2020	1,220,000	-	175,000	1,045,000
259.11	Compensated Absences		86,352	33,622	-	119,974
	Total General Obligations:		1,306,352	33,622	175,000	1,164,974
Revenue Obligations						
252.11	2011 Water Revenue Bonds	12/1/2031	2,680,000	-	105,000	2,575,000
263.82	1995 PWTF - Water	7/1/2015	78,408	-	78,408	-
263.82	2003 PWTF - Water	7/1/2023	224,736	-	224,736	-
263.82	2003 SRF-WW Treatment Plant	8/3/2026	5,150,155	-	465,029	4,685,126
263.82	2005 PWTF - Water	7/1/2025	1,674,229	-	139,519	1,534,710
263.82	2006 PWTF - 271st Trunkline	7/1/2026	1,389,974	-	106,921	1,283,053
263.82	2006 PWTF - Bryant Well	7/1/2026	2,240,997	-	172,385	2,068,612
263.82	2008 PWTF - Water System Plan	7/1/2014	18,971	-	18,971	-
259.12	Compensated Absences		47,598	13,526	-	61,124
	Total Revenue Obligations:		13,505,068	13,526	1,310,969	12,207,625
	Total Liabilities:		14,811,420	47,148	1,485,969	13,372,599

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