



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Stanwood

For the period January 1, 2017 through December 31, 2017

Published November 15, 2018

Report No. 1022503





**Office of the Washington State Auditor
Pat McCarthy**

November 15, 2018

Mayor and City 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,

Pat McCarthy
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.....	30

**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
January 1, 2017 through December 31, 2017**

Mayor and City 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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 8, 2018.

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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

November 8, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Stanwood January 1, 2017 through December 31, 2017

Mayor and City Council
City of Stanwood
Stanwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Stanwood, for the year ended December 31, 2017, 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 opinions 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, 2017, 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, 2017, 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. The 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 November 8, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

November 8, 2018

FINANCIAL SECTION

City of Stanwood January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

City of Stanwood
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	102 Street Impact Fee Fund
Beginning Cash and Investments					
30810	Reserved	2,725,909	-	-	641,811
30880	Unreserved	10,082,375	3,541,259	209,221	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	6,533,924	5,225,601	199,601	-
320	Licenses and Permits	270,426	253,184	17,241	-
330	Intergovernmental Revenues	1,795,729	150,725	150,747	-
340	Charges for Goods and Services	5,131,863	350,382	405	249,796
350	Fines and Penalties	52,940	24,215	-	-
360	Miscellaneous Revenues	514,876	31,981	983	5,304
Total Revenues:		14,299,758	6,036,088	368,977	255,100
Expenditures					
510	General Government	769,015	769,015	-	-
520	Public Safety	3,552,126	3,552,126	-	-
530	Utilities	2,394,818	-	-	-
540	Transportation	374,255	-	360,835	-
550	Natural and Economic Environment	607,546	607,546	-	-
560	Social Services	1,311	1,311	-	-
570	Culture and Recreation	242,636	242,636	-	-
Total Expenditures:		7,941,706	5,172,633	360,835	-
Excess (Deficiency) Revenues over Expenditures:		6,358,051	863,455	8,142	255,100
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,391,242	108,545	35,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	383	383	-	-
381, 395, 398	Other Resources	479,100	129,670	-	-
Total Other Increases in Fund Resources:		1,870,726	238,599	35,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,311,335	31,905	-	-
591-593, 599	Debt Service	1,315,526	-	-	-
597	Transfers-Out	1,391,242	100,337	108,545	511,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	500	500	-	-
581	Other Uses	340,000	-	-	-
Total Other Decreases in Fund Resources:		6,358,603	132,741	108,545	511,000
Increase (Decrease) in Cash and Investments:		1,870,173	969,311	(65,403)	(255,900)
Ending Cash and Investments					
5081000	Reserved	3,113,255	-	-	385,911
5088000	Unreserved	11,565,204	4,510,572	143,818	-
Total Ending Cash and Investments		14,678,459	4,510,572	143,818	385,911

The accompanying notes are an integral part of this statement.

City of Stanwood
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		104 Park Improvement Fund	105 Fire Impact Fees	106 Park Impact Fees	108 Transportation Sales Tax Fund
Beginning Cash and Investments					
30810	Reserved	-	56,206	32,135	297,320
30880	Unreserved	138,085	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	333,641
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	252,321
340	Charges for Goods and Services	-	10,538	83,304	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	8,720	117	84	3,338
Total Revenues:		8,720	10,654	83,388	589,300
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	13,420
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	13,420
Excess (Deficiency) Revenues over Expenditures:		8,720	10,655	83,388	575,880
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	150,000	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		150,000	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	143,097	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	455,563
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		143,097	-	-	455,563
Increase (Decrease) in Cash and Investments:		15,623	10,655	83,388	120,318
Ending Cash and Investments					
5081000	Reserved	-	66,860	115,523	417,637
5088000	Unreserved	153,708	-	-	-
Total Ending Cash and Investments		153,708	66,860	115,523	417,637

City of Stanwood
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		205 Debt Service Fund	303 Street Construction Fund	305 Construction Fund	320 REET - Capital Improvements
Beginning Cash and Investments					
30810	Reserved	-	-	-	287,542
30880	Unreserved	58,049	127,041	130,694	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	209,998	-	-	282,541
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	1,167,731	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	126	307	-	2,849
Total Revenues:		210,124	1,168,038	-	285,390
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		210,124	1,168,038	-	285,390
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	777,945	195,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	130,000	-
Total Other Increases in Fund Resources:		-	777,945	325,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	1,580,802	264,668	-
591-593, 599	Debt Service	199,000	-	228	-
597	Transfers-Out	-	-	60,798	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	130,000	-
Total Other Decreases in Fund Resources:		199,000	1,580,802	455,694	-
Increase (Decrease) in Cash and Investments:		11,124	365,181	(130,694)	285,390
Ending Cash and Investments					
5081000	Reserved	-	-	-	572,933
5088000	Unreserved	69,172	492,222	-	-
Total Ending Cash and Investments		69,172	492,222	-	572,933

City of Stanwood
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		321 REET - Growth Management	401 Sewer Fund	410 Drainage Fund	421 Water Fund
Beginning Cash and Investments					
30810	Reserved	715,504	473,270	-	222,122
30880	Unreserved	-	4,440,776	404,956	1,032,293
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	282,541	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	74,205	-
340	Charges for Goods and Services	-	1,964,695	588,480	1,884,263
350	Fines and Penalties	-	-	-	28,726
360	Miscellaneous Revenues	5,318	205,655	59,246	190,848
Total Revenues:		287,860	2,170,350	721,931	2,103,837
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	909,554	373,373	1,111,891
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	909,554	373,373	1,111,891
Excess (Deficiency) Revenues over Expenditures:		287,859	1,260,796	348,558	991,946
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	12,573	41,562	70,617
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	139,430	80,000	-
Total Other Increases in Fund Resources:		-	152,003	121,562	70,617
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	928,717	313,883	48,265
591-593, 599	Debt Service	-	577,296	-	539,001
597	Transfers-Out	150,000	-	-	5,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	210,000	-	-
Total Other Decreases in Fund Resources:		150,000	1,716,013	313,883	592,266
Increase (Decrease) in Cash and Investments:		137,859	(303,214)	156,237	470,297
Ending Cash and Investments					
5081000	Reserved	853,364	476,990	-	224,038
5088000	Unreserved	-	4,133,842	561,194	1,500,675
Total Ending Cash and Investments		853,364	4,610,832	561,194	1,724,712

City of Stanwood
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Agency
308	Beginning Cash and Investments	35,493
388 & 588	Prior Period Adjustment, Net	-
310-390	Additions	120,566
510-590	Deductions	109,478
	Net Increase (Decrease) in Cash and Investments:	11,088
508	Ending Cash and Investments	46,581

The accompanying notes are an integral part of this statement.

City of Stanwood
Notes to the Financial Statements
For the year ended December 31, 2017

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 government. 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 government.

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 government in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account for assets that the government 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

Beginning with the years 2015 and 2016, the City adopts biennial 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. Biennial appropriations for these funds lapse at the fiscal year end.

Biennial 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:

Fund	Amounts	Expenditures	Variance
General Fund			\$ -
001 - General Fund	\$ 6,628,844	\$ 5,946,584	\$ 682,260
107 - Equipment Reserve Fund	\$ 6,000	\$ -	\$ 6,000
109 - Contingency Fund	\$ -	\$ -	\$ -
110 - Building Improvement Fund	\$ 100,000	\$ 31,905	\$ 68,095
Total General Fund	\$ 6,734,844	\$ 5,978,489	\$ 756,355
101 - Street Fund	\$ 473,700	\$ 469,380	\$ 4,320
102 - Street Impact Fee Fund	\$ 511,000	\$ 511,000	\$ -
104 - Park Improvement Fund	\$ 260,000	\$ 143,097	\$ 116,903
105 - Fire Impact Fees Fund	\$ -	\$ -	\$ -
106 - Park Impact Fees Fund	\$ -	\$ -	\$ -
108 - Transportation Sales Tax Fund	\$ 474,777	\$ 468,983	\$ 5,794
205 - Debt Service Fund	\$ 199,000	\$ 199,000	\$ -
103/303 - Street Construction Fund	\$ 2,635,928	\$ 1,580,802	\$ 1,055,126
305 - Construction Fund	\$ 455,694	\$ 455,694	\$ -
120/320 - REET - Capital Improvement	\$ -	\$ -	\$ -
121/321 - REET - Growth Management	\$ 150,000	\$ 150,000	\$ -
Sewer Fund			
401 - Sewer Fund	\$ 1,641,166	\$ 1,506,851	\$ 134,315
403 - Sewer Construction Fund	\$ 1,730,574	\$ 1,138,717	\$ 591,857
405 - Sewer Plant Investment Fund	\$ 97,140	\$ 97,140	\$ -
452 - Sewer Bond Reserve	\$ -	\$ -	\$ -
457 - Sewer Equipment Reserve	\$ 40,000	\$ -	\$ 40,000
Total Sewer Fund	\$ 3,508,880	\$ 2,742,708	\$ 766,172
Drainage Fund			
410 - Drainage Fund	\$ 536,198	\$ 508,373	\$ 27,825
411 - Drainage Construction Fund	\$ 544,920	\$ 313,883	\$ 231,037
412 - Drainage Plant Investment Fund	\$ 44,000	\$ 44,000	\$ -
458 - Drainage Equipment Reserve	\$ 10,000	\$ -	\$ 10,000
Total Drainage Fund	\$ 1,135,118	\$ 866,256	\$ 268,862
Water Fund			
421 - Water Fund	\$ 1,760,274	\$ 1,655,892	\$ 104,382
422 - Water Construction Fund	\$ 180,000	\$ 53,265	\$ 126,735
423 - Cedar Home Plant Investment	\$ 10,580	\$ 10,580	\$ -
424 - Water Plant Investment Fund	\$ 105,600	\$ 105,600	\$ -
451 - Water Bond Reserve	\$ 212,200	\$ 212,200	\$ -
459 - Water Equipment Reserve	\$ -	\$ -	\$ -
Total Water Fund	\$ 2,268,654	\$ 2,037,537	\$ 231,117
Total	\$ 18,807,595	\$ 15,602,946	\$ 3,204,649

Budgeted amounts are authorized to be transferred between departments within 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 of Stanwood's legislative body.

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 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 and is payable upon separation or retirement. Sick leave may be accumulated up to 640 hours. Upon separation or retirement employees receive up to 33% payment for unused sick leave. Payments are recognized as expenditures when paid. Compensatory time may be accumulated up to 70 hours for union administrative employees and 100 hours for union public works employees. Accumulated compensatory time is payable upon separation from employment. Payment of compensatory absences is recognized as an expenditure when paid.

G. Long-Term Debt

See Note 5, *Debt Service Requirements*.

H. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when expenditure is subject to restrictions 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:

Fund	Amount	Description
Street Impact Fees	\$ 385,911	Restricted by state statute
Fire Impact Fees	\$ 66,860	Restricted by state statute
Park Impact Fees	\$ 115,523	Restricted by state statute
Transportation Sales Tax	\$ 417,637	Restricted by state statute
Real Estate Excise Tax	\$ 572,933	Restricted by state statute
Real Estate Excise Tax	\$ 853,363	Restricted by state statute
Water Bond Reserve	\$ 224,038	Required by bond covenant
Sewer Bond Reserve	\$ 476,990	Required by bond covenant
Total	\$ 3,113,255	

Note 2 – Deposits and Investments

It is the City's policy to invest 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 City's name.

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

Type of Investment	Investments	Total
Local Government Investment Pool	\$ 273,328	\$ 273,328
U.S. Treasury Notes	\$ 2,502,875	\$ 2,502,875
U.S. Agency Securities	\$ 2,050,740	\$ 2,050,740
Other:		
Money Market Account	\$ 3,664	\$ 3,664
Opus Checking	\$ 1,046,982	\$ 1,046,982
Snohomish County Investment Pool	\$ 7,470,280	\$ 7,470,280

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 Stanwood. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City's regular levy for 2017 was \$3.15104943145 per \$1,000 on an assessed valuation of \$788,790,152 for a total regular levy of \$2,485,517.

In addition, the City levied \$0.47666230244 per \$1,000 assessed valuation of \$788,790,152 for a total additional permanent EMS levy of \$375,987.

In 2017, the City also levied \$0.26830941739 per \$1,000 on an assessed valuation of \$782,668,902 for general obligation bond debt service (Stanwood G.O. Bond 2000) for an additional levy of \$209,997.

Note 4 – Interfund Loans

The following table displays interfund loan activity during 2017:

Borrowing	Lending	Balance	New		Balance
Fund	Fund	1/1/2017	Loans	Repayments	12/31/2017
305	403	\$ -	130,000	\$ 130,000	\$ -
411	403	\$ -	\$ 80,000	\$ -	\$ 80,000

Note 5 – Debt Service Requirements

The accompanying Schedule of Liabilities (schedule 09) provides more detail regarding the outstanding debt and liabilities of the City of Stanwood and summarizes the City’s debt transactions for the year ended December 31, 2017.

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

	Principal	Interest	Total
2018	\$ 1,178,854	\$ 129,550	\$ 1,308,404
2019	\$ 1,193,854	\$ 115,655	\$ 1,309,509
2020	\$ 1,208,854	\$ 101,161	\$ 1,310,015
2021	\$ 1,018,854	\$ 86,067	\$ 1,104,921
2022	\$ 1,028,854	\$ 78,573	\$ 1,107,427
2023-2031	\$ 4,075,669	\$ 349,751	\$ 4,425,420
Totals	\$ 9,704,939	\$ 860,757	\$ 10,565,696

Note 6 – Pension Plans

State Sponsored Pension Plans

All of the City of Stanwood’s full-time and qualifying part-time employees participate in statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS 2 and PERS 3.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2017 (the measurement date of the plans), the City of Stanwood's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.015202%	\$721,327
PERS 2/3	0.019553%	\$679,385
LEOFF 1	0.001166%	\$(17,687)

LEOFF Plan 1

The City also participates in the LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

Note 7 – Risk Management

The city of 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 161 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. The City of Stanwood has a \$25,000 deductible for property and a \$5,000 deductible for auto. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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.

Note 8 - Other Disclosures

A. Joint Venture – SNOPAC

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 SNOPAC. The city, in conjunction with (currently 37) other governmental entities, participates in this joint venture. Control of SNOPAC 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.

SNOPAC 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 \$86,954 in 2017 for these services.

Effective January 1, 2018 SNOCOM and SNOPAC have consolidated into Snohomish County 911. Both agencies will operate much like they did, with two different campuses, until brought together into a single building.

B. 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, and 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 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 the member cities.

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 city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities 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:

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	0%
2014	\$92,543	\$ 944	1.02%
2015	\$123,464	\$1,061	0.85%
2016	\$145,590	\$1,061	0.72%
2017	\$97,934	\$1,591	1.62%
2018	\$125,257	\$1,639	1.31%

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 Crystil Wooldridge, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 (or email: cwooldridge@ci.mlt.wa.us) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett, WA 98204.

C. Police Contract

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

Year	Annual Contract	Increase	Percentage Increase
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%

In January, 2018, the City signed a new interlocal agreement with Snohomish County to provide law

enforcement services beginning January 1, 2018 through December 31, 2022 as follows:

Year	Annual Contract	Increase	Percentage Increase
2018	\$ 1,719,818	\$ 53,447	3.8%
2019	\$ 1,771,855	\$ 52,037	3.0%
2020	\$ 1,825,461	\$ 53,606	3.0%
2021	\$ 1,880,685	\$ 55,224	3.0%
2022	\$ 1,937,574	\$ 56,889	3.0%

D. Fire Contract

Effective April 1, 2012, the City contracted with North County Regional Fire Authority 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 Regional Fire Authority for fire protection are as follows:

Year	Contract	Increase	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)	\$ 1,491,201	\$ 211,809	17%

Note A: The fire contract between North County Regional Fire Authority 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:	/ \$1,000
Result:	\$ 639,696
Times \$2	X \$2.00
Annual Charge for Service	\$ 1,279,392

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

The 2nd, 3rd, and 4th quarters of 2017 would be charged based as follows:

Assessed Valuation for the City of Stanwood \$788,790,152 x NCRFA levy rate (\$1.98)/1000=\$1,561,804.50/4quarters = \$390,451.13 per quarter.

As part of the agreement, in 2017 the NCRFA purchased the rolling stock and equipment from the City based on a negotiated price. The City received \$141,386.14 for the equipment by reducing our 3rd quarter payment to NCRFA by the same amount.

E. 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. Effective January 1st, 2016, the TBD was dissolved by City ordinance and the City assumed its functions. The transportation sales tax is accounted for in a new fund (#108). For 2017 this public transportation system sales tax amounted to \$333,641.

F. Changes in Presentation of Funds

Fund 305 was created in 2016 to account for capital projects with multiple funding sources. These projects were completed in 2017 and this fund was closed out.

G. 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, 2017, 261 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. 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 two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. 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.

H. 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 \$18,335 was paid out for those benefits in 2017.

I. Subsequent Event – Johnson Farm Acquisition

In June 2018, the city purchased a fifteen acre farm site on the north side of the SR 532 Bridge. Master Planning and preliminary design will begin in 2019, with a vision toward integrating the Johnson Farm property and the Ovenell Farm to create one larger fully connected park along the Stillaguamish River. In addition to the fifteen acre Johnson Farm property, a 187 acre conservation easement was purchased over the farmlands adjacent to the Johnson homestead. The total cost of the property and easement, including legal fees, was approximately \$814,000, and was offset by a \$500,000 grant received from the Snohomish County Conservation Futures Program.

**City of Stanwood
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	2007 G.O. BOND	12/1/2020	725,000	-	170,000	555,000
Total General Obligation Debt/Liabilities:			725,000	-	170,000	555,000
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	2011 WATER REVENUE BONDS	12/1/2031	2,350,000	-	120,000	2,230,000
263.82	2003 SRF-WW TREATMENT PLNT	8/3/2026	3,755,065	-	465,029	3,290,036
263.82	2005 PWTF-WATER	7/1/2025	1,255,672	-	139,519	1,116,153
263.82	2006 PWTF-271ST TRUNKLINE	7/1/2026	1,069,211	-	106,921	962,290
263.82	2006 PWTF-BRYANT WELL	7/1/2026	1,723,845	-	172,384	1,551,461
259.12	COMPENSATED ABSENCES		191,567	5,470	-	197,037
264.30	PENSION LIABILITIES		1,775,709	-	374,997	1,400,712
Total Revenue and Other (non G.O.) Debt/Liabilities:			12,121,069	5,470	1,378,850	10,747,689
Total Liabilities:			12,846,069	5,470	1,548,850	11,302,689

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov