



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Sequim

For the period January 1, 2018 through December 31, 2019

Published September 21, 2020

Report No. 1026980





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

September 21, 2020

Mayor and City Council
City of Sequim
Sequim, Washington

Report on Financial Statements

Please find attached our report on the City of Sequim'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

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Sequim
January 1, 2018 through December 31, 2019**

Mayor and City Council
City of Sequim
Sequim, 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 Sequim, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 15, 2020.

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 state law 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.

As discussed in Note 8 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 8.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinions 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

September 15, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Sequim January 1, 2018 through December 31, 2019

Mayor and City Council
City of Sequim
Sequim, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Sequim, for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

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 state law 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 audits. We conducted our audits 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 Sequim has prepared these financial statements to meet the financial reporting requirements of state law 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 cash and investments of the City of Sequim, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, 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 Sequim, as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis

As discussed in Note 8 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 8. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 September 15, 2020 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.

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

September 15, 2020

FINANCIAL SECTION

City of Sequim January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

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Fund Resources and Uses Arising from Cash Transactions – 2018
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Schedule of Liabilities – 2019
Schedule of Liabilities – 2018

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	001 General Fund	111 Street Restricted	115 Lodging Tax Hotel/Motel
Beginning Cash and Investments					
30810	Reserved	3,798,971	-	1,182,077	563,500
30880	Unreserved	19,719,425	4,920,631	13,235	-
388 / 588	Net Adjustments	201,457	-	-	-
Revenues					
310	Taxes	9,098,584	6,951,917	844,194	399,832
320	Licenses and Permits	426,318	426,318	-	-
330	Intergovernmental Revenues	1,452,683	499,216	783,534	-
340	Charges for Goods and Services	11,844,383	3,326,078	242,478	3,726
350	Fines and Penalties	912	912	-	-
360	Miscellaneous Revenues	591,138	287,761	30,918	14,758
Total Revenues:		23,414,018	11,492,202	1,901,124	418,316
Expenditures					
510	General Government	3,522,703	3,482,092	-	-
520	Public Safety	3,501,882	3,474,774	-	-
530	Utilities	6,865,748	908,098	-	-
540	Transportation	1,844,984	1,215,621	629,363	-
550	Natural and Economic Environment	502,484	221,590	-	280,894
560	Social Services	132,749	132,749	-	-
570	Culture and Recreation	354,677	278,902	-	24,000
Total Expenditures:		16,725,227	9,713,826	629,363	304,894
Excess (Deficiency) Revenues over Expenditures:		6,688,791	1,778,376	1,271,761	113,422
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	1,184,026	-	-	-
397	Transfers-In	1,761,000	280,000	220,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	208,000	25,287	121,474	-
Total Other Increases in Fund Resources:		3,153,026	305,287	341,474	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,960,970	338,194	2,366,010	-
591-593, 599	Debt Service	4,913,091	-	-	-
597	Transfers-Out	1,761,000	659,000	120,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	61,978	3,736	-	1,150
Total Other Decreases in Fund Resources:		11,697,039	1,000,930	2,486,010	1,150
Increase (Decrease) in Cash and Investments:		(1,855,222)	1,082,733	(872,775)	112,272
Ending Cash and Investments					
5081000	Reserved	4,528,633	-	1,743,776	675,771
5088000	Unreserved	17,335,185	6,003,372	(1,421,240)	-
Total Ending Cash and Investments		21,863,818	6,003,372	322,536	675,771

The accompanying notes are an integral part of this statement.

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		120 Police Restricted - NonRoutine	121 Police Asset Seizure	140 Parks Restricted	150 Real Estate Excise Tax 2
Beginning Cash and Investments					
30810	Reserved	190,814	-	702,560	302,745
30880	Unreserved	-	31,614	53,345	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	355,010	-	-	273,815
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	20,902	-	-	-
340	Charges for Goods and Services	2,063	-	172,651	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	8,766	525	24,869	6,214
Total Revenues:		386,741	525	197,520	280,029
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	27,108	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	20,202	-
Total Expenditures:		27,108	-	20,202	-
Excess (Deficiency) Revenues over Expenditures:		359,633	525	177,318	280,029
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	15,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	15,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,774	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	315,000	-	-	115,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		316,774	-	-	115,000
Increase (Decrease) in Cash and Investments:		42,859	525	192,318	165,029
Ending Cash and Investments					
5081000	Reserved	233,672	-	903,664	467,774
5088000	Unreserved	-	32,139	43,749	-
Total Ending Cash and Investments		233,672	32,139	947,413	467,774

The accompanying notes are an integral part of this statement.

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		160 Arts and Culture - Arts Commission	206 Debt Service Fund - City Hall	306 Capital Facilities Fund	350 Real Estate Excise Tax 1
Beginning Cash and Investments					
30810	Reserved	-	-	-	230,548
30880	Unreserved	9,322	144,763	153,201	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	273,816
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	7,493	4,403	3,147	4,058
Total Revenues:		7,493	4,403	3,147	277,874
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	31,573	-	-	-
Total Expenditures:		31,573	-	-	-
Excess (Deficiency) Revenues over Expenditures:		(24,080)	4,403	3,147	277,874
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	40,000	1,005,000	140,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		40,000	1,005,000	140,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	49,960	-
591-593, 599	Debt Service	-	657,125	-	-
597	Transfers-Out	-	-	-	365,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	657,125	49,960	365,000
Increase (Decrease) in Cash and Investments:		15,920	352,278	93,187	(87,126)
Ending Cash and Investments					
5081000	Reserved	-	-	90,040	143,422
5088000	Unreserved	25,241	497,041	156,347	-
Total Ending Cash and Investments		25,241	497,041	246,387	143,422

The accompanying notes are an integral part of this statement.

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		401 Water	402 Sewer	500 Unemployment Compensation	701 Haller Park Fund
Beginning Cash and Investments					
30810	Reserved	114,950	471,819	-	39,958
30880	Unreserved	4,852,941	9,456,101	84,272	-
388 / 588	Net Adjustments	114,252	87,205	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	149,031	-	-
340	Charges for Goods and Services	2,900,432	5,196,955	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	82,640	114,930	-	656
Total Revenues:		2,983,072	5,460,916	-	656
Expenditures					
510	General Government	-	-	40,611	-
520	Public Safety	-	-	-	-
530	Utilities	2,178,378	3,779,272	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,178,378	3,779,272	40,611	-
Excess (Deficiency) Revenues over Expenditures:		804,694	1,681,644	(40,611)	656
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	574,269	609,757	-	-
397	Transfers-In	-	-	61,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	13,161	48,078	-	-
Total Other Increases in Fund Resources:		587,430	657,835	61,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,086,320	1,118,712	-	-
591-593, 599	Debt Service	225,367	4,030,599	-	-
597	Transfers-Out	62,800	124,200	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	39,336	17,756	-	-
Total Other Decreases in Fund Resources:		1,413,823	5,291,267	-	-
Increase (Decrease) in Cash and Investments:		(21,699)	(2,951,788)	20,389	656
Ending Cash and Investments					
5081000	Reserved	114,950	114,950	-	40,614
5088000	Unreserved	4,945,491	6,948,384	104,661	-
Total Ending Cash and Investments		5,060,441	7,063,334	104,661	40,614

The accompanying notes are an integral part of this statement.

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 General Fund	111 Street Restricted	115 Lodging Tax Hotel/Motel
Beginning Cash and Investments					
30810	Reserved	3,552,300	-	1,487,961	451,191
30880	Unreserved	16,485,005	3,575,730	70,289	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	8,656,002	6,612,121	796,505	378,084
320	Licenses and Permits	558,919	558,919	-	-
330	Intergovernmental Revenues	889,937	491,232	282,923	-
340	Charges for Goods and Services	12,464,674	3,000,678	292,252	3,581
350	Fines and Penalties	1,273	1,273	-	-
360	Miscellaneous Revenues	476,939	181,749	23,140	13,812
Total Revenues:		23,047,743	10,845,972	1,394,819	395,476
Expenditures					
510	General Government	3,574,047	3,542,630	2,211	-
520	Public Safety	3,281,010	3,226,418	-	-
530	Utilities	6,056,402	652,523	-	-
540	Transportation	1,447,875	1,019,185	428,690	-
550	Natural and Economic Environment	513,407	263,103	-	240,304
560	Social Services	77,839	77,839	-	-
570	Culture and Recreation	414,200	240,411	-	25,923
Total Expenditures:		15,364,780	9,022,110	430,901	266,227
Excess (Deficiency) Revenues over Expenditures:		7,682,963	1,823,863	963,918	129,250
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	759,686	-	-	-
397	Transfers-In	1,588,468	463,480	93,988	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	6,550	-	-	6,550
381, 382, 395, 398	Other Resources	16,352	16,352	-	-
Total Other Increases in Fund Resources:		2,371,055	479,832	93,988	6,550
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,414,201	428,083	1,300,845	-
591-593, 599	Debt Service	1,557,893	-	-	-
597	Transfers-Out	1,588,468	524,000	120,000	17,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	13,200	6,710	-	6,490
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		6,573,761	958,793	1,420,845	23,490
Increase (Decrease) in Cash and Investments:		3,480,259	1,344,902	(362,939)	112,310
Ending Cash and Investments					
5081000	Reserved	3,798,970	-	1,182,077	563,500
5088000	Unreserved	19,718,592	4,920,631	13,235	-
Total Ending Cash and Investments		23,517,563	4,920,631	1,195,311	563,500

The accompanying notes are an integral part of this statement.

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		120 Police Restricted - NonRoutine	121 Police Asset Seizure	140 Parks Restricted	150 Real Estate Excise Tax
Beginning Cash and Investments					
30810	Reserved	120,669	-	617,542	108,250
30880	Unreserved	80	31,227	54,465	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	335,449	-	-	246,882
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	27,278	-	-	-
340	Charges for Goods and Services	802	-	282,991	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	10,586	387	52,729	2,612
Total Revenues:		374,115	387	335,720	249,495
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	54,593	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	10,000	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	133,752	-
Total Expenditures:		54,593	-	143,752	-
Excess (Deficiency) Revenues over Expenditures:		319,522	387	191,968	249,494
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	130,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	130,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	(5,542)	-	238,071	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	255,000	-	-	55,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		249,458	-	238,071	55,000
Increase (Decrease) in Cash and Investments:		70,064	387	83,897	194,494
Ending Cash and Investments					
5081000	Reserved	190,814	-	702,560	302,745
5088000	Unreserved	-	31,614	53,345	-
Total Ending Cash and Investments		190,814	31,614	755,905	302,745

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		160 Arts and Culture - Arts Commission	206 Debt Service Fund - City Hall	306 Capital Facilities Fund	350 Real Estate Excise Tax
Beginning Cash and Investments					
30810	Reserved	-	-	-	140,450
30880	Unreserved	18,337	97,218	87,123	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	286,962
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	88,503	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,287	1,846	906	3,136
Total Revenues:		4,287	1,846	89,409	290,098
Expenditures					
510	General Government	-	427	1,877	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	14,114	-	-	-
Total Expenditures:		14,114	427	1,877	-
Excess (Deficiency) Revenues over Expenditures:		(9,827)	1,419	87,532	290,098
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	705,000	135,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	705,000	135,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	156,454	-
591-593, 599	Debt Service	-	658,875	-	-
597	Transfers-Out	-	-	-	200,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	658,875	156,454	200,000
Increase (Decrease) in Cash and Investments:		(9,827)	47,544	66,078	90,098
Ending Cash and Investments					
5081000	Reserved	-	-	-	230,548
5088000	Unreserved	8,511	144,763	153,201	-
Total Ending Cash and Investments		8,511	144,763	153,201	230,548

The accompanying notes are an integral part of this statement.

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		401 Water	402 Sewer	500 Unemployment Compensation	701 Haller Park Fund
Beginning Cash and Investments					
30810	Reserved	114,950	471,819	-	39,468
30880	Unreserved	4,257,504	8,242,857	50,175	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	3,092,775	5,791,596	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	61,179	120,078	-	490
Total Revenues:		3,153,954	5,911,674	-	490
Expenditures					
510	General Government	-	-	26,902	-
520	Public Safety	-	-	-	-
530	Utilities	1,964,709	3,439,170	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		1,964,709	3,439,170	26,902	-
Excess (Deficiency) Revenues over Expenditures:		1,189,245	2,472,504	(26,902)	490
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	563,023	196,662	-	-
397	Transfers-In	-	-	61,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		563,023	196,662	61,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	886,876	409,414	-	-
591-593, 599	Debt Service	112,625	786,393	-	-
597	Transfers-Out	157,330	260,137	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,156,831	1,455,945	-	-
Increase (Decrease) in Cash and Investments:		595,437	1,213,222	34,098	490
Ending Cash and Investments					
5081000	Reserved	114,950	471,819	-	39,958
5088000	Unreserved	4,852,941	9,456,080	84,272	-
Total Ending Cash and Investments		4,967,891	9,927,899	84,272	39,958

The accompanying notes are an integral part of this statement.

City of Sequim
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Custodial
308	Beginning Cash and Investments	289,278	2,460	286,818
388 & 588	Net Adjustments	(201,457)	-	(201,457)
310-390	Additions	108,025	28,431	79,594
510-590	Deductions	186,568	23,748	162,820
	Net Increase (Decrease) in Cash and Investments:	(78,543)	4,683	(83,226)
508	Ending Cash and Investments	9,279	7,144	2,135

The accompanying notes are an integral part of this statement.

City of Sequim
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Custodial
308	Beginning Cash and Investments	259,789	4,602	255,187
388 & 588	Net Adjustments	-	-	-
310-390	Additions	195,409	15,218	180,192
510-590	Deductions	165,920	17,359	148,561
	Net Increase (Decrease) in Cash and Investments:	29,490	(2,141)	31,631
508	Ending Cash and Investments	289,278	2,460	286,818

The accompanying notes are an integral part of this statement.

CITY OF SEQUIM
NOTES TO FINANCIAL STATEMENTS
2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Sequim was incorporated in 1913 and operates under the laws of the state of Washington applicable to a Non-charter Code City with a Council-Manager form of government. The City is a general purpose government and provides public safety, water supply, water treatment and distribution, sewage collection and tertiary class-A treatment/ reclamation, street maintenance, comprehensive planning/zoning, building permitting/inspection, parks and administrative services.

The City 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 statement.
- 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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 government.

Debt Service Funds

This fund accounts 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.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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.

Internal Service Funds

These funds account for operations that provide goods and services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Pension-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Custodial Funds

These funds are used to account assets that the City holds for others in an 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 the twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3 – Deposits and Investments.

D. Capital Assets

Capital assets are assets with an individual cost of more than \$7,500 and an estimated useful life in excess of two or more years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation time accumulates depending on time worked and seniority. Accruals vary depending upon whether or not the employee is represented by a bargaining unit. Employees represented by a union will accrue vacation at the following rates:

Years of Service	Accrual
Year 1	1 week
Year 2-4	2 weeks
Year 5-9	3 weeks
Year 10-14	4 weeks
Year 15+	5 weeks

Effective January 1, 2018, non-represented employees accrue vacation at the following rates:

	Years of Service	Admin Support (non-exempt)	Manager 1-3 (exempt)	Director (exempt)
Level 1	Year 1	2 weeks	3 weeks	4 weeks
Level 2	Year 2-5	3 weeks	4 weeks	5 weeks
Level 3	Year 6-10	4 weeks	4.5 weeks	5.5 weeks
Level 4	Year 11+	5 weeks	5.5 weeks	6 weeks

The City payroll system utilizes pooled time off (PTO) and it accrues for every employee (except seasonal employees). For non-exempt positions, this consists of accrued vacation, annual holiday floater, comp-time and/or overtime earned. For exempt positions, it consists of accrued vacation and an annual holiday floater. Salaried employees are not eligible to earn comp-time.

Non-represented employees may accrue vacation up to a maximum of 1.5 times their annual accrual amount shown above. Any vacation over the maximum on January 1 each year will be lost unless the City Manager elects to buy back the vacation leave time. For non-uniformed union employees the maximum total accrued hours in the PTO bank is three hundred fifty two (352) hours if hired before January 1, 2015 and two hundred fifty two (252) hours if hired on or after that date. For uniformed union employees, the maximums are three hundred sixty (360) if hired before January 1, 2013 and three hundred (300), on or after that date. Upon separation or retirement, employees do receive payment for unused vacation at a rate of 100%.

A full-time employee typically accrues sick time at a rate of 8 hours per month, and at least one (1) hour for every 40 hours worked. Non-uniformed represented employees may accrue sick leave up to 1,440 hours. Upon separation or retirement these non-uniformed represented employees hired prior to December 31, 2014 receive payment for unused sick leave at a rate of 50%. Non-uniformed represented employees hired after that date, are paid 25% of accrued sick leave upon separation. Uniformed represented staff, hired prior to December 31, 2013, are paid 50% of a maximum of 1,440 hours of accrued sick leave. Uniformed represented staff hired after that date are paid 50% of a maximum of 750 hours. All employees may accrue up to any amount. Upon separation, non-represented employees hired before July 1, 2012 will be paid 50% of their accrued sick leave balance on June 30, 2012 at the employees June 30th hourly wage. Accrued sick leave is not eligible for payout at employment separation for non-represented employees hired on or after July 2012.

Compensated absences as of December 31, 2019 totaled \$819,662, which increased from the prior year by \$55,399.

F. Debt Service Requirements

See Note 6 and Schedule 9.

G. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of interfund loans, and proceeds from the sale of assets, insurance recoveries, and pass through money.

H. Risk Management

The City 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 163 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 \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 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. Various deductibles apply by

type of coverage. 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, reinsurance and other 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.

I. 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.

The City's ending fund balance of \$21,873,097 consists of \$4,537,912 in reserved and \$17,335,185 in unreserved funds. Our restricted fund balances include: Streets Restricted (111) where funds are committed through impact fee and settlement agreements, SEPA mitigation for specific transportation improvements or taxes reserved for specific transportation improvements and construction retainage, Hotel/Motel (115) where tax revenue is restricted by legislation to tourism activities, Police Restricted (120) where donation money is committed by policy to specific programs like K-9 replacement, project lifesaver and car seats, REET 1 and REET 2 (150/350) by legislation to specific capital projects identified in the City's Capital Improvement plan, Parks Restricted (140) by impact fees, donations and REET balances, and Water & Sewer Debt Service (401/402) by revenue bond covenants that stipulate reserve requirements equal to the amount of the annual payment. Finally, the City reports reserved fund balances totaling \$9,279 in its Fiduciary Funds, included in the above reserved totals.

See below for details:

Streets Restricted (111)	<u>Reserved \$</u>
<i>SEPA Mitigation and Latecomer Funds</i>	\$142,676
<i>Impact Fees</i>	1,053,973
<i>Transportation Benefit District Taxes</i>	322,536
<i>Construction Retainage</i>	121,474
<i>Settlements</i>	<u>103,117</u>
	1,743,776
Hotel/Motel Lodging Tax (115)	675,771
Police Restricted (120)	
<i>Public Safety Tax</i>	163,980
<i>Donations and Grants</i>	<u>69,692</u>
	233,672
Parks Restricted (140)	
<i>Impact Fees</i>	864,249
<i>REET</i>	<u>39,415</u>
	903,664
REET 1 (150) and REET 2 (350)	611,196
Capital Facility Projects (REET)	90,040
Water (401) Revenue Bond required reserve	114,950
Sewer (402) Revenue Bond required reserve	114,950
Haller Park Trust Fund (701)	40,614
Sub-Total	4,528,633
Fiduciary Funds	<u>9,279</u>
Total Restricted Funds	\$4,537,912

NOTE 2 – BUDGET COMPLIANCE

The City adopts annual appropriated budgets for all funds 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 annual appropriated and actual expenditures (before eliminating entries prepared for reporting purposes on statements C-4 & C-5 and schedule 01) for the legally adopted budgets were as follows:

Fund	Final Annual Appropriation	Actual Expenditures	Variance/ Balance
001 General Fund (includes 101 Streets, 107 Storm Water, 117 Project Storm Water and 164 Equipment Reserve, Rainy Day 199)	13,800,646	13,151,514	649,132
111 Streets Restricted	3,319,401	3,300,373	19,028
115 Lodging Tax	327,969	306,044	21,924
120 Criminal Justice	382,381	343,883	38,498
121 Police Asset Seizure	20,000	-	20,000
140 Parks Restricted	144,408	20,201	124,207
150/350 Real Estate Excise Tax	620,000	480,000	140,000
160 Gifting and Donations	53,388	31,574	21,814
206 LTGO Debt Service	657,625	657,125	500
306 Capital Facilities	415,743	49,960	365,783
401 Water	4,327,795	4,212,205	115,591
402 Sewer	15,199,339	13,303,846	1,895,492
500 Unemployment	98,000	40,611	57,389
611 Flexible Spending Accounts	45,000	23,748	21,252
621 Police Expendable Trust	20,000	-	20,000
631 Construction Deposits	325,000	121,253	203,747
635 Agency	168,328	40,688	127,639
645 Utility Deposits	237,000	202,335	34,665
Totals	40,162,022	36,285,362	3,876,660

The General Fund (001), Street-Unrestricted (101-u), Storm Water Operations (107), Project Storm Water (117), Equipment Reserve Fund (164) and the Rainy Day (199) fund budgets were approved as separate funds but are shown consolidated to be consistent with other schedules. The water and sewer unrestricted and restricted fund budgets were also approved separately but are “rolled-up” to their respective enterprise fund to be consistent with other schedules, as well. REET1 activities are classified as Capital Fund activities in the financial statements although they were combined in Fund 150 REET for budget purposes.

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City’s legislative body. In 2019, the City Council approved the following significant amendments to the budget:

- In 2019, the General Fund’s financial performance far exceeded expectations, predominantly in our sales tax receipts and development fees. This allowed the City to amend the original budget and add transfers out to the Rainy Day Fund for future budget stabilization purposes (\$975,000), to the Equipment Reserve Fund (\$250,000) to increase savings for future equipment purchases as well as to the Debt Service Fund (\$250,000) for possible prepayment of Long Term General Obligation debt associated with the Civic Center.
- The City also added additional staff to the budget, a Paralegal and a Development

Review Engineer, to address increasing work loads in the City Attorney and Community Development departments.

- Finally, \$100,000 was added to the Street Operations budget to account for expenditures related to a severe snow event, \$400,000 was added as a transfer from the Sewer Fund to Street's Restricted for a pavement preservation project to correct issues caused by improper installation of sewer lines and \$172,000 was added as a transfer from the Utility Deposit Fund, enabling the City to correct for changes in the accounting requirements related to refundable utility deposits.

NOTE 3 – DEPOSITS & INVESTMENTS

Investments are presented at their original cost. Deposits and investments by type at December 31, 2019 are as follows:

Type of Investment	City's Own Deposits and Investments	Deposits and Investments held by the City for Others	Total
Bank Deposits	3,775,381	4,581	3,779,962
Other	6,156,525	1,599	6,158,124
Local Government Investment Pool	2,212,778	575	2,213,353
US Government Securities	9,719,251	2,524	9,721,775
Totals	\$21,863,936	\$9,279	\$21,873,215

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is pro-rated to the various funds.

The City is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals. The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, and online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository institution, the City would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City's deposits are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered or held by the City or its agent in the government's name.

NOTE 3 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

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

The city's regular levy for the year 2019 was \$1.41677 per \$1,000 based on a 2018 assessed valuation of \$1,085,922,040 for a total regular levy of \$1,538,503. (In 2019, the City Council approved the allowable 1% increase in property taxes for 2020.)

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 debt transactions for the year ending December 31, 2019. The debt service requirements for general obligation bonds, revenue bonds and other liabilities, including interest, are as follows:

Year	Principal	Interest	Total
2020	717,142	545,609	1,262,752
2021	742,294	539,243	1,281,537
2022	610,036	523,392	1,133,428
2023	626,388	508,738	1,135,126
2024	642,765	493,610	1,136,375
2025-2029	3,374,761	2,156,809	5,531,570
2030-2034	3,759,594	1,568,310	5,327,904
2035-2039	2,892,694	921,134	3,813,828
2040-2044	2,385,098	284,763	2,669,861
Total	\$15,750,772	\$7,541,609	\$23,292,381

*As of December 31, 2019, there was \$819,662 in outstanding compensated absences that represent an unfunded liability with no scheduled payments, as this is based on attrition. Therefore, total debt payments above do not include such future obligations for compensated absences.

** As of December 31, 2019, the City had Revenue Debt of \$2,545,000 shared by both the water and sewer utilities to fund their portion of the civic center building completed in 2015.

*** The schedule above amortizes the total loan amount authorized for two State Revolving Fund loans, even though they are only partially funded as of December 31, 2019. Therefore, this schedule assumes that these two partially funded loans will be fully funded by the time loan payments are due in 2020. These loans are for the Doe Run Sewer and West Fir Sewer Improvement projects with current balances of \$34,306 and \$361,169, respectively. Total loan amounts authorized are \$547,930 and \$769,715, respectively. Total loan amounts do not include forgiven principal for the West Fir project in 2019 of \$39,447.

**** It should be noted that in January 2019, the entire loan balance of \$3,627,309 for the

Reclaimed Water Facility – SRF Loan 2009 was paid off. This reduces total interest payments through 2030 by approximately \$475,000.

NOTE 5 – STATE SPONSORED PENSION PLANS

Substantially all of the City’s full-time and qualifying part-time employees participate in one of the statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees’ Retirement Systems (PERS) and Law Enforcement Officers’ and Fire Fighter’s Retirement System (LEOFF).

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

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

At June 30, 2019 (the measurement date of the plans), the City’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contribution	Allocation %	Liability (Asset)
PERS1	\$5,916	.000825%	\$31,714
PERS 1 - UAAL	\$200,132	.027911%	\$1,073,277
PERS 2/3	\$294,451	.036052%	\$350,187
LEOFF 1		.001651%	(\$32,634)
LEOFF 2	\$86,527	.046931%	(\$1,087,247)

The City participates in 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.

The City also participates in LEOFF Plan 2. The legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding

situation is not mandated by the state constitution and could be changed by statute.

During 2007, the City employees in the Non-uniformed bargaining unit chose to participate in the Western Conference of Teamsters Pension Plan. This plan is fully funded by employee contributions. More information is available at the Plan's web site at www.wctpension.org.

NOTE 6 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan. The plan pays for 100% of the eligible retiree's healthcare costs on a pay-as-you-go basis. As of December 31, 2019, the plan had one member, a retiree. The City pays a Medicare Supplement insurance premium and a Long-Term Care insurance premium to limit the exposure of medical costs. The City is responsible for co-payments and other out of pocket expenses approved by the Clallam County Disability Board.

As of December 31, 2019, the City's total OPEB liability was \$382,920, as calculated using the alternative measurement method. For the year ended December 31, 2019, the City paid \$14,267 in benefits.

NOTE 7 – INTERLOCAL AGREEMENTS

The City has several inter-local agreements with nearby cities, Clallam County, the local fire district, the local school district, Clallam County Transit, and other government agencies.

During 2019, the following new inter-local agreements were signed or in effect:

Parties	Services
Association of Washington Cities	Employee Benefit Trust Healthcare Program
City of Forks	Jail Services
City of Port Angeles	Police Department – Mutual Assist Agreement, Purchasing, Solid Waste Disposal
City of Port Angeles, Olympic Medical Center, Clallam Transit and Clallam County	Resource Conservation Management
Clallam County	Management Control Agreement – IT Services, Surface Water Flow, Monitoring, Carlsborg Wastewater Disposal and Treatment, Criminal Justice Services, Building Code Services as needed, SERP and Design Standards in USA, Elections – Ballot Collection and Voter Registration, Comp Solid Waste Management Plan, STP Funds, Public Utilities Franchise, Septage Treatment, Clean Water District MOA, Prisoner Confinement, Sex Offender

	Address and Residency Program, Electronic Home Monitoring Program, Road Work Agreement, Use of Mower, OPSCAN Network Services, Stonegarden Grant Program
Clallam County and Jefferson County	Multi-Agency Investigative Response Team
Clallam Conservation District	Low Impact Development Project
Clallam County, City of Forks and Port Angeles	Multi-Agency Reciprocal Maintenance Agreement, Distribution of SHB 2060 Funds
Clallam County, et al	Kenmore Air Grant
Clallam County PUD #1	Water Service Area Agreement – Highlands, Street Light Agreement, Power Line Extension Agreement, Temporary Wholesale Water Supply Agreement, Conservation Agreement – Lighting Systems Upgrades
Clallam County Sheriff	Use of Sequim Police Department and Training Lab Use
Clallam County Sheriff and Fire District #3	Fire Investigation Task Force
Clallam Transit	Commercial Lease Agreement, after Maintenance and Install Bus Stops, Sale of Bus Passes, Parking Easement
Clallam/Jefferson Public Defenders	Indigent Case Defense
FCC	Radio Station Authorization
Fire District #3	Fire Inspections, Fire and Emergency Medical Protection, Burning Permit Process, Confined Space Equipment, Interlocal Emergency Management Services and Operations
Houston-Galveston Area Council	Cooperative Purchasing Agreement
Jamestown S'Klallam Tribe	Letter of Agreement re Roadway System, Wastewater Disposal
Jamestown Excavation	Installation of Water Meters
King County	Cooperative Purchasing Agreement
Olympic Peninsula Narcotics Enforcement Team (OPNET)	Distribution Agreement, Criminal Investigations and Prosecutions
PENCOM – City of Port Angeles	Dispatch and Computer Records Services
Port Angeles School District #1121	Remodel of Guy Cole Center
Sequim School District	PRoTECT Coalition, Green house Lease, School Resource Officer
Washington State Public Works Board	Construction Loan Agreement – Aerobic Digesters, Grant for 5 th & McCurdy Booster Pump Station, Grant for Sunnyside Water Main Replacement
Washington State Department of	Energy and Water Efficiency Program,

Commerce	Growth Management Act Update Grant, Agreement and loan for McCurdy Booster Pump Station
Washington State Department of Ecology	Aerobic Digester Aeration and Headworks Improvements Grant, Water Reclamation & Distribution Expansion Grant, Stormwater Stewardship Grant
Washington State Department of Enterprise Services	Guy Cole Interagency Agreement, State Purchasing Contract
Washington State Department of Health	Feasibility Study Grant – Deytona Water System
Washington State Department of Licensing	Master Business Licensing Services, Interagency Disclosure Driver and Plate Search
Washington State Department of Natural Resources	Urban and Community Forestry Program
Washington State Department of Revenue	Sales and Use Tax Agreement
Washington State Department of Transportation	Adopt-A-Hwy, Maintenance and Ops of Signal Systems, 5 th & Hendrickson Signal Maintenance, Overhead Reciprocating Agreement, LOU for Local Agency Guidelines, Trail Lease – ODT, STP Funds W Sequim Bay Road, W Fir Street Rehab Grant, Turnback Agreement, Non-Discrimination Agreement, Guard Rail Repair
Washington State Public Works Board	Grant for 5 th & McCurdy Booster Pump Station Improvements, Grant for Sunnyside Water Main Replacement
Washington State Transportation Improvement Board	Expanded Preservation Project, Arterial Preservation Project
Washington State Department of Natural Resources	Aquatic Lands Outfall Easement and Insurance
Washington State General Services Administration	Intergovernmental Purchasing Agreement
Washington State Patrol	Live-Scan Fingerprint ID System, 24 Hour Hit Confirmation, Use of ASPEN Software, Academy Facility Use, SECTOR Service Level Agreement
Washington State Department of Corrections	Shared Office Space
Washington State University	Small Business Development Center Program
Washington Cities Insurance Authority	Insurance and Risk Management Services effective 1/1/2019

Details of these and all prior active agreements can be found on the City's web-site, www.sequimwa.gov.

NOTE 8 - OTHER DISCLOSURES

A. Health & Welfare

The City 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, 2019, 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 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, 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 Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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.

B. Other Disclosures

Subsequent Events:

In late February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The City acted promptly by issuing a Proclamation of Civil Emergency in March 2020 that included the following provisions:

- 1) Suspend public works bidding and purchasing requirements and enter into contracts and incur obligations necessary to combat such emergency situations to protect the health and safety of persons and property; and
- 2) Open and close City facilities as may be appropriate to respond to the pandemic; and
- 3) Modify business hours of City facilities as deemed appropriate by the Manager; and
- 4) Take other emergency actions to protect life and property, as appropriate; and
- 5) Use emergency funding, budgeting, and contracting provisions as appropriate; and

- 6) Develop and implement creative solutions to provide relief to those impacted by the economic implications as deemed fiscally and legally appropriate; and
- 7) Call out and use City personnel as needed in accordance with the City's Personnel Policy Manual and Comprehensive Emergency Management Plan and employ temporary workers as may be needed; and
- 8) Extend all powers and authorities contained in this proclamation to the Interim City Manager if the emergency declaration remains in place after the current City Manager leaves employment.

Subsequent to issuing the Proclamation of Civil Emergency, the City issued Emergency Orders to document management and City Council plans to address the situation. The following is a listing of Orders issued, as of the date of this report:

1. City Hall Closure
2. Personnel Policy Revisions – COVID Leave
3. Food Bank Container Permit Waiver
4. Shelter in Place
5. Nonessential Business Closures
6. Public Works Operations
7. Utility Relief Program
8. Boys & Girls Club Funding
9. Temporary IT Technician
10. COVID-19 Leave Policy
11. Mailed Paychecks
12. Adopting City Preparedness and Response Plan
13. Modified Police Schedule
14. Additional COVID Leave – 104 Hours
15. Pane D'Amore Rent Deferral
16. Phase 1 Construction Restart
17. Small Business Rapid Relief Program

The full extent of all emergency measures and the length of time they will be in effect is unknown. The full financial impact of this emergency is also unknown, however, staff is currently engaging in forecasting exercises and amending spending practices to balance a revised expenditure forecast with declining revenues.

Corrections of Material Errors:

In 2019, the Office of the Washington State Auditor provided updated guidance on the accounting treatment of refundable utility deposits and construction retainage. In prior years, these transactions were treated as custodial in nature and, therefore, recorded in "Agency Funds" reported on the C-5, Fiduciary Fund Resources and Uses Arising from Cash Transactions Financial Statement. These monies were moved via journal entries to their

respective Enterprise Funds. These amounts are now shown on the C-4, Fund Resources and Uses Arising from Cash Transactions Financial Statement as “net adjustments” and total \$201,457.

Interfund Charges:

The City provides support services to operating units (funds and departments) through the following services: City Council, City Administration (City Manager, Clerk, Attorney, and Communications), Administrative Services (Finance, Human Resources, and Information Technology), Public Works Administration, Engineering, Facilities and non-departmental (City-wide expenses). These services are paid by the General Fund and charged back to the departments and programs directly benefiting from them. It is a process guided by an Allocation Policy and complex methodology that describes how the City allocates costs reasonably and equitably, according to actual benefit.

This plan identifies the following “allocation bases” that determine how costs are distributed from these Services. They include the following: Council Agenda items, Fund Activity (expenses net of interfund charges, transfers and debt), Number of Employees, Equipment, Square Footage and Insurance Claims. These “bases” or factors are updated frequently so the charges to each department/fund vary with those factors on a (relatively) real-time basis. As such, these charges to departments/funds result in recognized revenues to the General fund. In 2019, \$2,899,208 in Charges for Goods and Services related to interfund charges were recorded.

Boards and Committees:

The City Manager and the Council have established numerous Citizens Boards and Committees to obtain public involvement. The council committees include the Civil Service Commission, the Planning Commission, the Arts Commission, the Citizens Park Advisory Board and the Lodging Tax Advisory Committee where membership can change annually. Other committees and task forces are created on a short-term and long-term basis to address current local issues. Members of Council and/or City Management staff have been attending the various meetings.

Public Transportation Tax, effective April 1, 2010:

Ballot measures were proposed and approved in November 2009 to authorize a sales and use tax of two-tenths of one percent (0.2%) to be collected within the Sequim Transportation Benefit District (TBD), effective April 1, 2010. Collection of these revenues directly from the State started in 2010 and expire in 2020. An inter-local agreement obligated the TBD to transfer sales and use tax to the City to offset the City’s expenses in performing capital projects and maintaining City streets. In 2017, the TBD was absorbed by the City. These revenues are now collected in the City’s Streets Restricted Fund. Total collected in 2019 was \$844,194. Ballot measures were proposed and approved in 2018 to continue the tax through 2030.

Public Safety Tax, effective January 1, 2013:

In August 2012, the citizens of Sequim voted to authorize a .1% Public Safety Tax, effective January 1, 2013. Receipts for this new tax began in March 2013. The City completed construction of a new Civic Center in 2015 which houses the Police Station and City Hall. This tax provides funding for the debt service related to the new Police Station, and more

recently public safety efforts related to emergency management. Total collected in 2019 was \$355,010.

Self-Insured for Unemployment Benefits:

The City has elected to be self-insured for unemployment benefits. A reserve (fund 500) has been established to cover potential future liability.

Additional Water and Sewer Revenue Bond Disclosures:

Parity bond debt service coverage ratio for 2017, 2018 and 2019:

	2017			2018			2019		
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Operational Summary									
Total Op Revenues	2,145,475	4,123,995	6,269,471	2,241,710	4,403,091	6,644,801	2,357,082	4,415,956	6,773,038
Total Ops Expenses 1	1,568,928	2,910,943	4,479,871	1,581,874	3,257,079	4,838,952	1,626,097	3,394,476	5,020,573
Net Revenues	576,548	1,213,052	1,789,600	659,836	1,146,012	1,805,849	730,985	1,021,480	1,752,465
Non-Operation Revenues									
Connection Charges and Interest	742,121	939,459	1,681,581	912,244	1,558,584	2,470,827	625,846	895,901	1,521,747
Available for Parity Bond Debt Service	1,318,669	2,152,511	3,471,181	1,572,080	2,704,596	4,276,676	1,356,831	1,917,381	3,274,212
Parity Bond Debt Service 2	115,000	115,000	230,000	115,000	115,000	230,000	115,000	115,000	230,000
Parity Bond Debt Service Coverage	11.47	18.72	15.09	13.67	23.52	18.59	11.80	16.67	14.24
Available for other purposes	1,203,669	2,037,511	3,241,181	1,457,080	2,589,596	4,046,676	1,241,831	1,802,381	3,044,212

1 – Excludes “Other Non-Operating Expenses” such as transfers

2 – Approximate based upon annual debt service over the life of revenue bond

Number of Utility Customers as of December 31, 2016, 2017, 2018 and 2019

Water

	2016 Customers	2017 Customers	2018 Customers	2019 Customers
Single Family Residential	1,944	2,003	2,167	2,267
Multifamily Residential	49	58	58	56
Commercial	338	359	381	337
Hotel/Motel and RV	13	13	13	11
Public Authority	29	29	30	29
Irrigation	122	99	124	122
Total Retail Connections	2,495	2,561	2,773	2,822

Sewer

	2016 Customers	2017 Customers	2018 Customers	2019 Customers
Single Family Residential	2,325	2,391	2,557	2,673
Multifamily Residential	48	54	54	55
Commercial	335	325	331	328

Hotel/Motel and RV	12	12	12	12
Public Authority	25	25	25	26
Total Retail Connections	2,745	2,807	2,979	3,094

2019 Water Rates ⁽¹⁾

	Single-Family Residential		Multi-Family Residential		Commercial and Public Authority/Irrigation		Hotel/Motel and RV Park	
	Base	Consumption	Base	Consumption	Base⁽²⁾	Consumption	Base⁽³⁾	Consumption
2019	\$26.26	\$0.00913	\$24.93	\$0.00913	\$139.95	\$0.00913	\$19.68	\$0.00913

- (1) Rates shown are monthly rates. All consumption charges shown are per cubic foot (cf) of water consumed. Consumption charges shown apply only to the first 600 cf consumed per month. Usage exceeding 600 cf per month (and under 1,600 cf) is charged at \$0.02670/cf and usage exceeding 1,600 cf is charged at \$0.03374/cf. Minimum rates for water service to customers located outside the City limits are 50% higher than the specified class base rate and consumption fee charged per unit inside the City limits unless addressed under separate contract.
- (2) Base rates applicable to 2-inch meters. For 2019, base rates for other meter sizes were \$26.26 for ¾-inch meters, \$43.84 for 1-inch meters, \$87.42 for 1.5-inch meters and \$262.48 for 3-inch meters.
- (3) Hotel/motel rates apply per unit or pad. Hotel/motel rates are also applicable to transient RV sites with water hookups.

2019 Sewer Rates

	2019	
	Inside City Limits	Outside City Limits⁽¹⁾
Single-Family Residential (connected to City water system) ⁽²⁾	\$59.38	\$118.76
Single-Family Residential (sewer only)	62.69	125.38
Multifamily Residential (per unit)	56.41	112.82
Commercial and Public Authority ⁽³⁾	62.60	125.20
Hotel/Motel and RV ⁽³⁾	44.53	89.06

- (1) Out-of-City charges are two times the in-City base rate and usage fee, unless addressed under contract.
- (2) Based on an average winter water usage of 600 cf. per month or less. For in-City customers and out-of-City customers with average winter water usage greater than 600 cf. per month, the base rate is \$68.90 and \$137.80, respectively.
- (3) Includes the first 600 cf of usage per month of usage per month. Each additional cf. is charged at \$0.06208/cf.

CITY OF SEQUIM
NOTES TO FINANCIAL STATEMENTS
2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Sequim was incorporated in 1913 and operates under the laws of the State of Washington applicable to a Non-charter Code City with a Council-Manager form of government. The City is a general purpose government and provides public safety, water supply, water treatment and distribution, sewage collection and tertiary class-A treatment/ reclamation, street maintenance, comprehensive planning/zoning, building permitting/inspection, parks and administrative services.

The City 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 statement.
- 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General (Current Expense) 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 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.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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.

Internal Service Funds

These funds account for operations that provide goods and services to other departments or funds of the government on a cost reimbursement basis

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Custodial Funds

These funds are used to account assets that the City holds for others in an agency 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 the twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3.

D. Capital Assets

Capital assets are long lived items that cost over \$7,500 and are recorded as expenditures when purchased.

E. Compensated Absences

Vacation time accumulates depending on time worked and seniority. Accruals vary depending upon whether or not the employee is represented by a bargaining unit. Employees represented by a union will accrue vacation at the following rates:

Years of Service	Accrual
Year 1	1 week
Year 2-4	2 weeks
Year 5-9	3 weeks
Year 10-14	4 weeks
Year 15+	5 weeks

Effective January 1, 2018, non-represented employees accrue vacation at the following rates:

	Years of Service	Admin Support (non-exempt)	Manager 1-3 (exempt)	Director (exempt)
Level 1	Year 1	2 weeks	3 weeks	4 weeks
Level 2	Year 2-5	3 weeks	4 weeks	5 weeks
Level 3	Year 6-10	4 weeks	4.5 weeks	5.5 weeks
Level 4	Year 11+	5 weeks	5.5 weeks	6 weeks

The City payroll system utilizes pooled time off (PTO) and it accrues for every employee (except seasonal employees). For non-exempt positions, this consists of accrued vacation, annual holiday floater, comp-time and/or overtime earned. For exempt positions, it consists of accrued vacation and an annual holiday floater. Salaried employees are not eligible to earn comp-time.

Non-represented employees may accrue vacation up to a maximum of 1.5 times their annual accrual amount shown above. Any vacation over the maximum on January 1 each year will be lost unless the City Manager elects to buy back the vacation leave time. For non-uniformed union employees the maximum total accrued hours in the PTO bank is three hundred fifty two (352) hours if hired before January 1, 2015 and two hundred fifty two (252) hours if hired on or after that date. For uniformed union employees, the maximums are three hundred sixty (360) if hired before January 1, 2013 and three hundred (300), on or after that date. Upon separation or retirement, employees do receive payment for unused vacation at a rate of 100%.

A full-time employee typically accrues sick time at a rate of 8 hours per month, and at least one (1) hour for every 40 hours worked. Non-uniformed represented employees may accrue sick leave up to 1,440 hours. Upon separation or retirement these non-uniformed represented employees hired prior to December 31, 2014 receive payment for unused sick leave at a rate of 50%. Non-uniformed represented employees hired after that date, are paid 25% of accrued sick leave upon separation. Uniformed represented staff, hired prior to December 31, 2013, are paid 50% of a maximum of 1,440 hours of accrued sick leave. Uniformed represented staff hired after that date are paid 50% of a maximum of 750 hours. All employees may accrue up to any amount. Upon separation, non-represented employees hired before July 1, 2012 will be paid 50% of their accrued sick leave balance on June 30, 2012 at the employees June 30th hourly wage. Accrued sick leave is not eligible for payout at employment separation for non-represented employees hired on or after July 2012.

Compensated absences as of December 31, 2018 totaled \$764,263, which increased from the prior year by \$41,697.

F. Debt Service Requirements
See Note 6 and Schedule 9.

G. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of interfund loans, and proceeds from the sale of assets, insurance recoveries, and pass through money.

H. Risk Management

The City of Sequim was a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA) in 2018. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2018, 100 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2018, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

In 2017, the City of Sequim approved to pursue membership in a new risk pool, effective January 1, 2019. The new risk pool is Washington Cities Insurance Authority (WCIA). On March 9, 2018, the WCIA Executive Committee approved the City for both pre-membership and full membership as of, January 1, 2019.

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

The City's ending fund balance of \$23,806,841 consists of \$4,088,248 in reserved and \$19,718,592 in unreserved funds. Our restricted fund balances include: Streets Restricted (111) where funds are committed through impact fee and settlement agreements, SEPA mitigation for specific transportation improvements or taxes reserved for specific transportation improvements, Hotel/Motel (115) where tax revenue is restricted by legislation to tourism activities, Police Restricted (120) where donation money is committed by policy to specific programs like K-9 replacement, project lifesaver and car seats, REET 1 and REET 2 (150/350) by legislation to specific capital projects identified in the City's Capital Improvement plan, Parks Restricted (140) by impact fees, donations and REET balances, and Water & Sewer Debt Service (401/402) by State Revolving Fund loan agreements and revenue bond covenants that stipulate reserve requirements equal to the amount of the annual payment. Finally, the City reports reserved fund balances totaling \$289,278 in its Fiduciary Funds.

See below for details:

Streets Restricted (111)	<u>Reserved \$</u>
<i>SEPA Mitigation and Latecomer Funds</i>	\$142,676
<i>Impact Fees</i>	930,801
<i>Transportation Benefit District Taxes</i>	5,483
<i>Settlements</i>	<u>103,117</u>
	1,182,077
Hotel/Motel Lodging Tax (115)	563,500
Police Restricted (120)	
<i>Public Safety Tax</i>	125,745
<i>Donations and Grants</i>	<u>65,069</u>
	190,814
Parks Restricted (140)	
<i>Impact Fees</i>	678,669
<i>REET</i>	<u>23,891</u>
	702,560
REET 1 (150) and REET 2 (350)	533,293
Water (401) Revenue Bond required reserve	114,950
Sewer (402) debt service for SRF Loan, and Revenue Bond required reserve	471,819

Haller Park Trust Fund (701)

39,958
3,798,971

Fiduciary Funds

289,278
4,088,248

NOTE 2 - BUDGETS

The City adopts annual appropriated budgets for all funds 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 annual appropriated and actual expenditures (before eliminating entries prepared for reporting purposes on statements C-4 & C-5 and schedule 01) for the legally adopted budgets were as follow:

Fund	Annual Appropriation	Actual Expenditures	Variance/ Balance
001 General Fund (includes 101 Streets, 107 Storm Water, 117 Project Storm Water and 164 Equipment Reserve, Rainy Day 199)	12,822,203	12,144,239	677,964
111 Streets Restricted	3,904,394	2,211,746	1,692,648
115 Lodging Tax	308,314	289,717	18,597
120 Criminal Justice	321,684	304,051	17,634
121 Police Asset Seizure	30,000	-	30,000
140 Parks Restricted	727,355	381,823	345,532
150/350 Real Estate Excise Tax	450,000	255,000	195,000
160 Gifting and Donations	39,830	14,114	25,716
206 LTGO Debt Service	659,675	659,302	373
306 Capital Facilities	208,391	158,331	50,060
401 Water	5,491,770	3,741,540	1,750,230
402 Sewer	8,808,613	6,444,933	2,363,681
500 Unemployment	83,000	26,902	56,098
611 Flexible Spending Accounts	45,000	17,359	27,641
621 Police Expendable Trust	20,000	-	20,000
631 Construction Deposits	325,000	58,475	266,525
635 Agency	168,328	41,882	126,446
645 Utility Deposits	58,000	48,205	9,795
Totals	\$34,471,556	\$26,797,616	\$7,673,941

The General Fund (001), Street-Unrestricted (101-u), Storm Water Operations (107), Project Storm Water (117), Equipment Reserve Fund (164) and the Rainy Day (199) fund budgets were approved as separate funds but are shown consolidated to be consistent with other schedules. The water and sewer unrestricted and restricted fund budgets were also approved separately but are “rolled-up” to their respective enterprise fund to be consistent with other schedules, as well. REET1 activities are classified as Capital Fund activities in the financial statements although they were combined in Fund 150 REET for budget purposes.

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions

of employment must be approved by the City's legislative body.

NOTE 3 – DEPOSITS & INVESTMENTS

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is pro-rated to the various funds.

The City's deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

The City maintains two investment accounts with US Bank. These investments are comprised primarily of US government and agency securities, and municipal bonds. All of these investments are uninsured but held in Book Entry Form at the Cleveland Federal Reserve in the name of US Bank in their fiduciary capacity for the benefit of the City and therefore not part of the bank's balance sheet, totally protected from bank creditors.

Investments are presented at their tax cost basis, as of December 31, 2018. Cash and investments by type at December 31, 2018 are as follows, including the component unit:

Type of Investment	City's Own Investments	Trust and Agency Funds	Total
Cash	5,558,000	284,581	5,842,581
Other	176,967	46	177,013
L.G.I.P	2,162,378	566	2,162,944
US Government Securities	11,925,506	3,119	11,928,626
Municipal Securities	3,694,712	966	3,695,678
Totals	\$23,517,563	\$289,278	\$23,806,841

NOTE 3 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

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

The city's regular levy for the year 2018 was \$1.50179 per \$1,000 based on a 2017 assessed valuation of \$973,941,010 for a total regular levy of \$1,462,655. (In 2018, the City Council approved the allowable 1% increase in property taxes for 2019.)

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 debt transactions for the year ending December 31, 2018. The debt service requirements for general obligation bonds, revenue bonds and other liabilities, including interest, are as follows:

Year	Principal	Interest	Total
2019	971,764	647,603	1,619,367
2020	970,947	609,951	1,580,898

2021	990,592	587,029	1,577,620
2022	841,936	565,513	1,407,449
2023	864,575	545,296	1,409,871
2024-2028	4,625,257	2,357,204	6,982,461
2029-2033	3,815,688	1,670,151	5,485,839
2034-2038	2,849,576	1,028,524	3,878,100
2039-2043	2,860,000	420,138	3,280,138
Total	\$18,790,334	\$8,431,408	\$27,221,742

*As of December 31, 2018 there was \$764,263 in outstanding compensated absences that represent an unfunded liability with no scheduled payments, as this is based on attrition. Therefore, General Obligation debt payments above do not include such future obligations for compensated absences.

** As of December 31, 2018 the City has Revenue Debt of \$2,670,000 shared by both the water and sewer utilities to fund their portion of the new civic center.

*** The schedule above amortizes the total loan amount authorized for two State Revolving Fund loans, even though they are only partially funded as of December 31, 2018. Therefore, this schedule assumes that these two partially funded loans will be fully funded by the time loan payments are scheduled to commence. These loans are for the Sunnyside and Doe Run Sewer Improvement projects with balances of \$227,140 and \$33,481, respectively. Total loan amounts authorized are \$488,763 and \$547,930, respectively. Total loan amounts do not include forgivable principal of \$25,037 and \$41,070, respectively, of which \$58,518 has already been forgiven.

**** It should be noted that in January 2019, the entire loan balance of \$3,627,309 for the Reclaimed Water Facility – SRF Loan 2009 was paid off. This reduces total interest payments through 2030 by approximately \$475,000.

NOTE 5 – PENSION PLANS

Substantially all of the City's full-time and qualifying part-time employees participate in one of the statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement Systems (PERS) and Law Enforcement Officers' and Fire Fighter's Retirement System (LEOFF).

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

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

At June 30, 2018 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contribution	Allocation %	Liability (Asset)
PERS1	\$5,765	.000863%	\$38,542
PERS 1 - UAAL	\$189,178	.028302%	\$1,263,977
PERS 2/3	\$280,351	.036333%	\$620,354
LEOFF 1		.001622%	(\$29,447)
LEOFF 2	\$83,325	.048051%	(\$975,540)

The City participates in 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.

The City also participates in LEOFF Plan 2. The legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

During 2007, the City employees in the Non-uniformed bargaining unit chose to participate in the Western Conference of Teamsters Pension Plan. This plan is fully funded by employee contributions. More information is available at the Plan's web site at www.wctpension.org.

NOTE 6 – Inter-local Agreements

The City has several inter-local agreements with nearby cities, Clallam County, the local fire district, the local school district, Clallam County Transit, and other government agencies.

During 2018, the following new inter-local agreements were signed or in effect:

Parties	Services
Association of Washington Cities	Risk Management, Employee Benefit Trust Health Care Program
City of Forks	Jail Services
City of Port Angeles	Police Department – Mutual Assist Agreement, Purchasing, Solid Waste Disposal
City of Port Angeles, Olympic Medical Center, Clallam Transit and Clallam County	Resource Conservation Management
Clallam County	Management Control Agreement – IT Services, Surface Water Flow, Monitoring, Carlsborg Wastewater Disposal and Treatment, Criminal Justice Services, Building Code Services as needed, SERP and Design Standards in USA, Elections –

	Ballot Collection and Voter Registration, Comp Solid Waste Management Plan, STP Funds, Public Utilities Franchise, Septage Treatment, Clean Water District MOA, Prisoner Confinement, Sex Offender Address and Residency Program, Electronic Home Monitoring Program, Road Work Agreement, Use of Mower, OPSCAN Network Services, Stonegarden Grant Program
Clallam County and Jefferson County	Multi-Agency Investigative Response Team
Clallam Conservation District	Low Impact Development Project
Clallam County, City of Forks and Port Angeles	Multi-Agency Reciprocal Maintenance Agreement, Distribution of SHB 2060 Funds
Clallam County, et al	Kenmore Air Grant
Clallam County PUD #1	Water Service Area Agreement – Highlands, Street Light Agreement, Power Line Extension Agreement, Temporary Wholesale Water Supply Agreement, Conservation Agreement – Lighting Systems Upgrades
Clallam County Sheriff	Use of Sequim Police Department and Training Lab Use
Clallam County Sheriff and Fire District #3	Fire Investigation Task Force
Clallam Transit	Commercial Lease Agreement, after Maintenance and Install Bus Stops, Sale of Bus Passes, Parking Easement
Clallam/Jefferson Public Defenders	Indigent Case Defense
FCC	Radio Station Authorization
Fire District #3	Fire Inspections, Fire and Emergency Medical Protection, Burning Permit Process, Confined Space Equipment
Houston-Galveston Area Council	Cooperative Purchasing Agreement
Jamestown S'Klallam Tribe	Letter of Agreement re Roadway System
Jamestown Excavation	Installation of water meters
King County	Cooperative Purchasing Agreement
Olympic Peninsula Narcotics Enforcement Team (OPNET)	Distribution Agreement, Criminal Investigations and Prosecutions
PENCOM – City of Port Angeles	Dispatch and Computer Records Services
Port Angeles School District #1121	Remodel of Guy Cole Center
Sequim School District	PRoTECT Coalition, Green house Lease, School Resource Officer
Washington State Public Works Board	Construction Loan Agreement – Aerobic Digesters, Grant for 5 th & McCurdy Booster Pump Station, Grant for Sunnyside Water Main Replacement
Washington State Department of	Energy and Water Efficiency Program,

Commerce	Growth Management Act Update Grant, Agreement and loan for McCurdy Booster Pump Station
Washington State Department of Ecology	Aerobic Digester Aeration and Headworks Improvements Grant, Water Reclamation & Distribution Expansion Grant, Stormwater Stewardship Grant
Washington State Department of Enterprise Services	Guy Cole Interagency Agreement, State Purchasing Contract
Washington State Department of Health	Feasibility Study Grant – Deytona Water System
Washington State Department of Licensing	Master Business Licensing Services, Interagency Disclosure Driver and Plate Search
Washington State Department of Natural Resources	Urban and Community Forestry Program
Washington State Department of Revenue	Sales and Use Tax Agreement
Washington State Department of Transportation	Adopt-A-Hwy, Maintenance and Ops of Signal Systems, 5 th & Hendrickson Signal Maintenance, Overhead Reciprocating Agreement, LOU for Local Agency Guidelines, Trail Lease – ODT, STP Funds W Sequim Bay Road, W Fir Street Rehab Grant, Turnback Agreement, Non-Discrimination Agreement, Guard Rail Repair
Washington State Public Works Board	Grant for 5 th & McCurdy Booster Pump Station Improvements, Grant for Sunnyside Water Main Replacement
Washington State Transportation Improvement Board	Expanded Preservation Project, Arterial Preservation Project
Washington State Department of Natural Resources	Aquatic Lands Outfall Easement and Insurance
Washington State General Services Administration	Intergovernmental Purchasing Agreement
Washington State Patrol	Live-Scan Fingerprint ID System, 24 Hour Hit Confirmation, Use of ASPEN Software, Academy Facility Use, SECTOR Service Level Agreement
Washington State Department of Corrections	Shared Office Space
Washington State University	Small Business Development Center Program
Washington Cities Insurance Authority	Insurance and Risk Management Services effective 1/1/2019

Details of these and all prior active agreements can be found on the City's web-site, www.sequimwa.gov.

NOTE 7 - POST RETIREMENT BENEFITS OTHER THAN PENSION BENEFIT

The LEOFF I Medical Plan is a closed, single-employer defined benefit OPEB plan administered by the City. As such, the City provides post retirement health care benefits and prescriptions payments in accordance with LEOFF I Rules for one retired police officer. This individual is currently employed full time by another agency and receives health and prescription benefits with his position.

The City pays a Medicare Supplement insurance premium and a Long Term Care insurance premium to limit the exposure of medical costs. The City is responsible for co-payments and other out of pocket expenses approved by the Clallam County Disability Board.

Employer contributions are financed on a pay-as-you go basis. Expenditures for post employment health care benefits are recognized as retirees report claims and do not include a provision for estimated claims incurred but not yet reported to the city.

During the year, expenditures of \$8,427 were paid out for post retirement health care.

NOTE 8 - OTHER DISCLOSURES

A. Health & Welfare

The City of Sequim 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, 2018, 257 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 2018, 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"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. 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.

B. Other Disclosures

Interfund Charges:

The City provides support services to operating units (funds and departments) through the following services: City Council, City Administration (City Manager, Clerk, Attorney, Communications and Human Resources), Administrative Services (Finance and Information Technology), Public Works Administration, Engineering, Facilities and non-departmental (City-wide expenses). These services are paid by the General Funds and charged back to the departments and programs directly benefiting from them. It is a process guided by a plan/policy that describes how the City allocates costs reasonably and equitably. This plan identifies the following "allocation bases" that determine how costs are distributed from these Services. They include the following: Council Agenda items, Fund Activity (expenses net of interfund charges, transfers and debt), Number of Employees, Equipment, Square Footage

and Insurance Claims. These “bases” or factors are updated frequently so the charges to each department/fund vary with those factors. As such, these charges to departments/funds result in recognized revenues to the General fund. In 2018, \$2,617,725 in Charges for Goods and Services related to interfund charges were recorded.

Boards and Committees:

The City Manager and the Council have established numerous Citizens Boards and Committees to obtain public involvement. The council committees include the Civil Service Commission, the Planning Commission, the Arts Commission, the Citizens Park Advisory Board and the Lodging Tax Advisory Committee where membership can change annually. Other committees and task forces are created on a short-term and long-term basis to address current local issues. Members of Council and/or City Management staff have been attending the various meetings.

Public Transportation Tax, effective April 1, 2010:

Ballot measures were proposed and approved in November 2009 to authorize a sales and use tax of two-tenths of one percent (0.2%) to be collected within the Sequim Transportation Benefit District (TBD), effective April 1, 2010. Collection of these revenues directly from the State started in 2010 and expire in 2020. An inter-local agreement obligated the TBD to transfer sales and use tax to the City to offset the City’s expenses in performing capital projects and maintaining City streets. In 2017, the TBD was absorbed by the City. These revenues are now collected in the City’s Streets Restricted Fund. Total collected in 2018 was \$796,505. Ballot measures were proposed and approved in 2018 to continue the tax through 2030.

Public Safety Tax, effective January 1, 2013:

In August 2012, the citizens of Sequim voted to authorize a .1% Public Safety Tax, effective January 1, 2013. Receipts for this new tax began in March 2013. The City completed construction of a new Civic Center in 2015 which houses the Police Station and City Hall. This tax provides funding for the debt service related to the new Police Station. Total Collected in 2018 was \$335,489.

Self-Insured for Unemployment Benefits

The City has elected to be self-insured for unemployment benefits. A reserve (fund 500) has been established to cover potential future liability.

Additional Water and Sewer Revenue Bond Disclosures

Parity bond debt service coverage ratio for 2016, 2017 and 2018:

		2016			2017			2018		
		Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Operational Summary										
Total Op Revenues	1	2,053,795	4,024,472	6,078,266	2,145,475	4,123,995	6,269,471	2,241,710	4,403,091	6,644,801
Total Ops Expenses		1,518,493	3,155,743	4,674,236	1,568,928	2,910,943	4,479,871	1,581,874	3,257,079	4,838,952
Net Revenues		535,302	868,729	1,404,031	576,548	1,213,052	1,789,600	659,836	1,146,012	1,805,849
Non-Operation Revenues										
Connection Charges and Interest		532,068	743,694	1,275,762	742,121	939,459	1,681,581	912,244	1,558,584	2,470,827
Available for Parity Bond Debt		1,067,370	1,612,423	2,679,793	1,318,669	2,152,511	3,471,181	1,572,080	2,704,596	4,276,676
Parity Bond Debt Service	2	115,000	115,000	230,000	115,000	115,000	230,000	115,000	115,000	230,000
Parity Bond Debt Service Coverage										
		9.28	14.02	11.65	11.47	18.72	15.09	13.67	23.52	18.59
Available for other purposes		952,370	1,497,423	2,449,793	1,203,669	2,037,511	3,241,181	1,457,080	2,589,596	4,046,676

1 – Excludes “Other Non-Operating Expenses” such as transfers

2 – Approximate based upon annual debt service over the life of revenue bond

Number of Utility Customers as of December 31, 2016, 2017 & 2018

Water

	2016 Customers	2017 Customers	2018 Customers
Single Family Residential	1,944	2,003	2,167
Multifamily Residential	49	58	58
Commercial	338	359	381
Hotel/Motel and RV	13	13	13
Public Authority	29	29	30
Irrigation	122	99	124
Total Retail Connections	2,495	2,561	2,773

Sewer

	2016 Customers	2017 Customers	2018 Customers
Single Family Residential	2,325	2,391	2,557
Multifamily Residential	48	54	54
Commercial	335	325	331
Hotel/Motel and RV	12	12	12
Public Authority	25	25	25
Total Retail Connections	2,745	2,807	2,979

2018 Water Rates ⁽¹⁾

	Single-Family Residential		Multi-Family Residential		Commercial and Public Authority/Irrigation		Hotel/Motel and RV Park	
	Base	Consumption	Base	Consumption	Base⁽²⁾	Consumption	Base⁽³⁾	Consumption
2018	\$24.77	\$0.00861	\$23.52	\$0.00861	\$132.03	\$0.00861	\$18.57	\$0.00861

- (1) Rates shown are monthly rates. All consumption charges shown are per cubic foot (cf) of water consumed. Consumption charges shown apply only to the first 600 cf consumed per month. Usage exceeding 600 cf per month (and under 1,600 cf) is charged at \$0.02547/cf and usage exceeding 1,600 cf is charged at \$0.03183/cf. Minimum rates for water service to customers located outside the City limits are 50% higher than the specified class base rate and consumption fee charged per unit inside the City limits unless addressed under separate contract.
- (2) Base rates applicable to 2-inch meters. For 2018, base rates for other meter sizes were \$24.77 for ¾-inch meters, \$41.36 for 1-inch meters, \$82.47 for 1.5-inch meters and \$247.62 for 3-inch meters.
- (3) Hotel/motel rates apply per unit or pad. Hotel/motel rates are also applicable to transient RV sites with water hookups.

2018 Sewer Rates

	2018	
	Inside City Limits	Outside City Limits⁽¹⁾
Single-Family Residential (connected to City water system) ⁽²⁾	\$60.59	\$121.18
Single-Family Residential (sewer only)	63.97	127.94
Multifamily Residential (per unit)	57.56	115.12
Commercial and Public Authority ⁽³⁾	63.88	127.76
Hotel/Motel and RV ⁽³⁾	45.44	90.88

- (1) Out-of-City charges are two times the in-City base rate and usage fee, unless addressed under contract.
- (2) Based on an average winter water usage of 600 cf. per month or less. For in-City customers and out-of-City customers with average winter water usage greater than 600 cf. per month, the base rate is \$70.31 and \$140.62, respectively.
- (3) Includes the first 600 cf of usage per month of usage per month. Each additional cf. is charged at \$0.06335/cf.

City of Sequim
Schedule of Liabilities
For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	City Hall/Police Station LTGO	12/1/2043	9,765,000	-	240,000	9,525,000
Total General Obligation Debt/Liabilities:			9,765,000	-	240,000	9,525,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	PWTF Aerobic Digester Loan - 094	6/1/2027	520,000	-	57,778	462,222
263.84	Reclaimed Water Facility - SRF Loan 2009	6/17/2030	3,627,309	-	3,627,309	-
252.11	Water Revenue Bond 2014	12/1/2034	1,335,000	-	62,500	1,272,500
252.11	Sewer Revenue Bond 2014	12/1/2034	1,335,000	-	62,500	1,272,500
263.84	DOE Headworks SRF Loan - 131	12/31/2021	491,533	-	161,557	329,976
263.84	DWSRF - 5th & McCurdy Water Pump Station	10/1/2035	103,166	574,269	33,136	644,299
263.84	DWSRF - Sunnyside Water Main	10/1/2035	575,857	-	61,930	513,927
263.84	DOE DWSRF - Doe Run Sewer Lift Station	6/29/2038	33,481	825	-	34,306
263.84	DOE DWSRF - Sunnyside Sewer Main	6/29/2038	227,140	213,040	9,326	430,854
263.84	DOE Water Quality Loan - W. Fir Street Sewer	9/30/2040	-	400,616	39,447	361,169
259.12	Compensated Absences		764,263	55,399	-	819,662
264.30	Pension Liabilities		1,922,872	-	467,683	1,455,189
264.40	LEOFF 1 Liability		-	382,920	-	382,920
Total Revenue and Other (non G.O.) Debt/Liabilities:			10,935,621	1,627,069	4,583,166	7,979,524
Total Liabilities:			20,700,621	1,627,069	4,823,166	17,504,524

City of Sequim
Schedule of Liabilities
For the Year Ended December 31, 2018

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	City Hall/Police Station LTGO	12/1/2043	10,000,000	-	235,000	9,765,000
Total General Obligation Debt/Liabilities:			10,000,000	-	235,000	9,765,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	PWTF Aerobic Digester Loan - 094	6/1/2027	520,000	-	-	520,000
263.84	Reclaimed Water Facility - SRF Loan	3/1/2018	136,512	-	136,512	-
263.84	Reclaimed Water Facility - SRF Loan 2009	6/17/2030	3,903,297	-	275,988	3,627,309
252.11	Water Revenue Bond 2014	12/1/2034	1,395,000	-	60,000	1,335,000
252.11	Sewer Revenue Bond 2014	12/1/2034	1,395,000	-	60,000	1,335,000
263.84	DOE Headworks SRF Loan - 131	12/31/2021	650,846	-	159,313	491,533
263.84	DOH Drinking Water SRF - 5th & McCurdy Water Pump Station - 028	10/1/2035	81,757	21,409	-	103,166
263.84	DOH Drinking Water SRF - Sunnyside Water Main - 036	10/1/2035	34,242	541,614	-	575,856
263.84	DOE Drinking Water SRF - Doe Run Sewer Lift Station - 00162	6/29/2038	33,481	-	-	33,481
263.84	DOE Drinking Water SRF - Sunnyside Sewer Main - 00177	6/29/2038	30,478	196,662	-	227,140
259.12	Compensated Absences		722,566	41,697	-	764,263
264.30	Pension Liabilities		2,719,050	-	796,178	1,922,872
Total Revenue and Other (non G.O.) Debt/Liabilities:			11,622,229	801,382	1,487,991	10,935,620
Total Liabilities:			21,622,229	801,382	1,722,991	20,700,620

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	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov