



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

**Financial Statements and Federal Single Audit  
Report**  
**City of Sultan**

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

**Published November 12, 2020**

**Report No. 1027278**





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

November 12, 2020

Mayor and City Council  
City of Sultan  
Sultan, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Sultan's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

## TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Audit Findings and Responses.....	6
Summary Schedule of Prior Audit Findings .....	9
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.....	10
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance .....	13
Independent Auditor's Report on Financial Statements.....	16
Financial Section.....	20
Corrective Action Plan for Findings Reported Under Uniform Guidance .....	41
About the State Auditor's Office.....	42

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## City of Sultan January 1, 2019 through December 31, 2019

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Sultan are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

#### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

#### Federal Awards

#### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

See Finding 2019-01.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Sultan

January 1, 2019 through December 31, 2019

**2019-001 The City's internal controls over financial statement preparation were inadequate to ensure accurate financial reporting.**

#### *Background*

The City Council, state and federal agencies and the public rely on the information included in the financial statements and reports to make decisions. City management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting.

The City received a finding in the prior audit for inadequate controls over financial statement preparation. We found these concerns remain.

*Government Auditing Standards* requires the auditor to communicate significant deficiencies in internal controls, as defined in the Applicable Laws and Regulations section below, as a finding.

#### *Description of Condition*

During the current audit, we identified the following deficiencies in internal controls that, when taken together, represent a significant deficiency:

- The Finance Director performs most financial statement preparation functions with little to no oversight. The City did not have an effective review process in place to ensure the financial statements and related schedules were free from misstatements and that it implemented all required updates from the *Budgeting, Accounting, and Reporting Systems (BARS)* manual.
- The City performed inadequate monitoring of its monthly bank reconciliations to ensure they were accurate and complete.
- The City had a process for reviewing journal entries, but it was not effective in ensuring all journal entries were reviewed and supported by documentation before they were posted.

#### *Cause of Condition*

The City has not dedicated the time and resources needed to establish effective internal controls over financial statement preparation. City staff were aware of

internal control deficiencies but resistant to implementing changes identified in prior audits, including directing other employees to review their work. Staff were not trained to perform a complete and thorough review of the financial statements.

### ***Effect of Condition***

Our audit identified a large number of presentation errors in the financial statements that individually were not significant but when taken together could impair the user's understanding of the financial report.

Additionally, the audit identified that the City had not updated its financial statements to reflect changes required by the BARS Manual. Specifically, the City had not reported its Postemployment Benefits Other Than Pensions (OPEB). The City corrected most of the identified misstatements, including adding the OPEB liability, in the final financial statements.

Without an adequate review of all financial activity, the City faces increased risk of materially misstating financial reports.

### ***Recommendations***

We recommend the City strengthen its financial statement preparation and internal controls by having a review of the financial statements completed by a person who understands BARS reporting requirements.

Additionally, we recommend a person other than the preparer review all financial related activities, including journal entries, cash reconciliations, and schedules, to ensure they are accurate and adequately supported.

### ***City's Response***

*The City continues to provide training employees to perform adequate reviews of all financial transactions, so they have a better understanding of the financial system and reports.*

*To eliminate the concern that the city lacks documentation that reviews were being completed for financial transactions, a review process was implemented that requires all documents are stamped and dated when the review occurs.*

*For the 2019 financial report, a partial review of the document was completed prior to submittal. Although staff has been trained to review financial statements, they do not have a full understanding of the BARS requirements. To resolve the issue with inadequate reviews, the city will be contracting with a third party with knowledge of the preparation of financial reports and bank reconciliations to assist the city with proper oversight.*

### ***Auditor's Remarks***

We appreciate the steps the City is taking to solve this issue. We will review the condition during our next audit.

### ***Applicable Laws and Regulations***

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse and noncompliance with provisions of law, regulations, contracts or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its codification of statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200, Local government accounting – Uniform system of accounting.

The *Budgeting, Accounting and Reporting System (BARS)* manual, 3.1.3, Internal Control



# City of Sultan



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### City of Sultan

January 1, 2019 through December 31, 2019

This schedule presents the status of federal findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2018 – December 31, 2018	<b>Report Ref. No.:</b> 1025309	<b>Finding Ref. No.:</b> 2018-001
<b>Finding Caption:</b> The City’s internal controls over financial statements preparation were inadequate to ensure accurate financial reporting.		
<b>Background:</b> City management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting. The 2018 financial statement audit identified the City did not have an adequate review process in place of the financial statements, notes to the financial statements, related schedules and journal entries. Additionally, certain non-cash transactions were not appropriately accounted for and the City did not have adequate monitoring over bank reconciliations.		
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>In 2019, a partial review of the financial statements and notes was completed. The city continues to train staff in the review process for the financial reports.</i> <i>In 2019, journal entries were not consistently reviewed and beginning in 2020, journal entries and all other financial transactions are reviewed and the employee signs and dates the transactions to provide documentation of the review.</i> <i>The city has eliminated the investment clearing fund from the reports to eliminate any double posting of revenues.</i> <i>In 2020, the city changed to the Global Bank Reconciliation format which is more in line with cash basis accounting and will continue to provide training for staff review. A review of the monthly reconciliation for EFT’s and cleared checks is completed by separate employees.</i>		

**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 Sultan  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Sultan  
Sultan, 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 Sultan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 5, 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 3 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS Manual.

As discussed in Note 6 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-01 that we consider to be significant deficiencies.

## 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*.

## **CITY'S RESPONSE TO FINDINGS**

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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.



Pat McCarthy  
State Auditor  
Olympia, WA

November 5, 2020

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Sultan  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Sultan  
Sultan, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Sultan, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended December 31, 2019. The City’s major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management’s Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

### **Other Matters**

We noted certain matters that we have reported to the management of the City in a separate letter dated November 5, 2020.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted certain matters that we have reported to the management of the City in a separate letter dated November 5, 2020.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.



Pat McCarthy  
State Auditor  
Olympia, WA

November 5, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Sultan January 1, 2019 through December 31, 2019

Mayor and City Council  
City of Sultan  
Sultan, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Sultan, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 20.

#### 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control



relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the City of Sultan 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 Sultan, and its changes in cash and investments, for the year ended December 31, 2019, 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 Sultan, as of December 31, 2019, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

## **Matters of Emphasis**

As discussed in Note 3 to the financial statements, in 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 6 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is 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 November 5, 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 style with a large, stylized initial "P".

Pat McCarthy

State Auditor

Olympia, WA

November 5, 2020

## **FINANCIAL SECTION**

### **City of Sultan January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2019  
Schedule of Expenditures of Federal Awards – 2019  
Notes to the Schedule of Expenditures of Federal Awards – 2019

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

		<u>Total for All Funds (Memo Only)</u>	<u>001 GENERAL FUND</u>	<u>101 STREET FUND</u>	<u>108 IMPACT FEE FUND</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	912,244	-	-	480,660
30880	Unreserved	6,556,107	1,265,043	56,145	-
388 / 588	Net Adjustments	32,459	11,425	1,717	-
<b>Revenues</b>					
310	Taxes	2,508,018	1,940,630	166,748	-
320	Licenses and Permits	359,534	348,574	8,609	-
330	Intergovernmental Revenues	3,027,387	424,475	113,544	-
340	Charges for Goods and Services	4,863,460	236,406	-	278,400
350	Fines and Penalties	35,798	26,898	-	-
360	Miscellaneous Revenues	1,803,230	78,724	759	4,962
Total Revenues:		<u>12,597,427</u>	<u>3,055,707</u>	<u>289,660</u>	<u>283,362</u>
<b>Expenditures</b>					
510	General Government	773,114	772,040	-	-
520	Public Safety	1,261,502	1,261,502	-	-
530	Utilities	2,812,790	-	-	-
540	Transportation	244,885	-	244,885	-
550	Natural and Economic Environment	691,703	691,703	-	-
560	Social Services	1,665	1,665	-	-
570	Culture and Recreation	173,074	173,074	-	-
Total Expenditures:		<u>5,958,733</u>	<u>2,899,984</u>	<u>244,885</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		6,638,694	155,723	44,775	283,362
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	5,862,001	-	-	-
397	Transfers-In	3,613,028	460,987	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	16,775	16,775	-	-
Total Other Increases in Fund Resources:		<u>9,491,804</u>	<u>477,762</u>	<u>-</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	6,632,674	296,040	13,077	-
591-593, 599	Debt Service	829,795	-	-	-
597	Transfers-Out	3,624,736	906	16,750	200,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	445	445	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>11,087,650</u>	<u>297,391</u>	<u>29,827</u>	<u>200,000</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>5,042,848</b>	<b>336,094</b>	<b>14,948</b>	<b>83,362</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	1,413,652	-	-	564,022
5088000	Unreserved	11,131,049	1,612,562	73,420	-
<b>Total Ending Cash and Investments</b>		<b>12,544,701</b>	<b>1,612,562</b>	<b>73,420</b>	<b>564,022</b>

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

		<b>112 PARK IMPACT FEE FUND</b>	<b>117 TIMBER RIDGE SETTLEMENT</b>	<b>203 LIMITED GO TAX BOND FUND</b>	<b>205 POLICE GO BOND FUND</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	174,846	-	-	-
30880	Unreserved	-	45,174	-	20,649
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	32,636
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	260,350	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,579	370	8,430	211
Total Revenues:		262,929	370	8,430	32,847
<b>Expenditures</b>					
510	General Government	-	-	-	300
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	300
Excess (Deficiency) Revenues over Expenditures:		262,929	370	8,430	32,547
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	2,528,000	-
397	Transfers-In	-	-	40,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	2,568,000	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	67,165	33,073
597	Transfers-Out	158,000	-	2,500,817	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		158,000	-	2,567,982	33,073
<b>Increase (Decrease) in Cash and Investments:</b>		<b>104,929</b>	<b>370</b>	<b>8,448</b>	<b>(526)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	279,776	-	-	-
5088000	Unreserved	-	45,545	8,448	20,123
<b>Total Ending Cash and Investments</b>		<b>279,776</b>	<b>45,545</b>	<b>8,448</b>	<b>20,123</b>

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

	<b>207 LID GUARANTY AND BOND</b>	<b>301 CAPITAL PROJECT FUND - REET 1</b>	<b>302 CAPITAL PROJECT FUND - REET 2</b>	<b>303 STREET IMPROVEMENT FUND</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	106,512	150,226
30880	Unreserved	135,457	-	58,910
388 / 588	Net Adjustments	-	-	-
<b>Revenues</b>				
310	Taxes	-	175,587	173,396
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	2,321,014
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	50,781	1,800	2,333
Total Revenues:		50,781	177,387	175,729
<b>Expenditures</b>				
510	General Government	474	-	-
520	Public Safety	-	-	-
530	Utilities	-	-	-
540	Transportation	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		474	-	-
Excess (Deficiency) Revenues over Expenditures:		50,307	177,387	175,729
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	200,000	-	2,550,041
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		200,000	-	2,550,041
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	-	-	4,384,902
591-593, 599	Debt Service	251,228	-	-
597	Transfers-Out	-	40,000	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		251,228	40,000	4,384,902
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(921)</b>	<b>137,387</b>	<b>175,729</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	243,898	325,956
5088000	Unreserved	134,537	-	547,692
<b>Total Ending Cash and Investments</b>		<b>134,537</b>	<b>243,898</b>	<b>325,956</b>

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

	<b>305 PARK IMPROVEMENT FUND</b>	<b>315 CR EQUIPMENT FUND</b>	<b>400 UTILITY WATER FUND</b>	<b>401 UTILITY SEWER FUND</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	162,545	350,635	1,477,323
388 / 588	Net Adjustments	-	-	335,291
				(322,068)
<b>Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	72,034	-	39,623
340	Charges for Goods and Services	-	-	1,518,078
350	Fines and Penalties	-	-	8,900
360	Miscellaneous Revenues	618	3,536	492,372
	Total Revenues:	72,652	3,536	2,058,973
<b>Expenditures</b>				
510	General Government	-	-	150
520	Public Safety	-	-	-
530	Utilities	-	-	995,253
540	Transportation	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
	Total Expenditures:	-	-	995,403
	Excess (Deficiency) Revenues over Expenditures:	72,652	3,536	1,063,570
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	1,667,000
397	Transfers-In	158,000	204,000	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
	Total Other Increases in Fund Resources:	158,000	204,000	1,667,000
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	340,378	35,911	603,835
591-593, 599	Debt Service	-	43,075	235,374
597	Transfers-Out	-	-	201,624
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
	Total Other Decreases in Fund Resources:	340,378	78,986	1,040,833
	<b>Increase (Decrease) in Cash and Investments:</b>	<b>(109,726)</b>	<b>128,550</b>	<b>1,689,737</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	-	-
5088000	Unreserved	52,819	479,185	3,502,351
	<b>Total Ending Cash and Investments</b>	<b>52,819</b>	<b>479,185</b>	<b>3,502,351</b>
				<b>3,989,539</b>



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

	<b>402 UTILITY GARBAGE FUND</b>	<b>406 STORMWATER UTILITY FUND</b>	<b>415 CEMETERY FUND</b>
<b>Beginning Cash and Investments</b>			
30810	Reserved	-	-
30880	Unreserved	307,018	223,597
388 / 588	Net Adjustments	2,159	144,117
	3,806	2,159	129
<b>Revenues</b>			
310	Taxes	19,021	-
320	Licenses and Permits	2,351	-
330	Intergovernmental Revenues	2,280	54,417
340	Charges for Goods and Services	750,868	226,849
350	Fines and Penalties	-	18,129
360	Miscellaneous Revenues	-	-
	22,783	1,697	1,121
Total Revenues:	<u>797,303</u>	<u>282,963</u>	<u>19,250</u>
<b>Expenditures</b>			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	725,733	148,829
540	Transportation	-	28,132
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:	<u>725,733</u>	<u>148,829</u>	<u>28,132</u>
Excess (Deficiency) Revenues over Expenditures:	71,570	134,134	(8,882)
<b>Other Increases in Fund Resources</b>			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 382, 395, 398	Other Resources	-	-
Total Other Increases in Fund Resources:	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>			
594-595	Capital Expenditures	-	78,958
591-593, 599	Debt Service	-	-
597	Transfers-Out	72,127	62,165
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581, 582	Other Uses	-	-
Total Other Decreases in Fund Resources:	<u>72,127</u>	<u>141,123</u>	<u>-</u>
<b>Increase (Decrease) in Cash and Investments:</b>	<b>(557)</b>	<b>(6,989)</b>	<b>(8,882)</b>
<b>Ending Cash and Investments</b>			
5081000	Reserved	-	-
5088000	Unreserved	310,933	218,607
<b>Total Ending Cash and Investments</b>	<b><u>310,933</u></b>	<b><u>218,607</u></b>	<b><u>135,288</u></b>

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

		<u>Custodial</u>
308	Beginning Cash and Investments	9,180
388 & 588	Net Adjustments	-
310-390	Additions	37,184
510-590	Deductions	39,283
	Net Increase (Decrease) in Cash and Investments:	(2,099)
508	Ending Cash and Investments	7,081

*The accompanying notes are an integral part of this statement.*

**CITY OF SULTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**Note 1 – Summary of Significant Accounting Policies**

The City of Sultan was incorporated in 1905 and operates under the laws of the State of Washington applicable to a Code City with a Mayor/Council form of government. The City is a general purpose government and provides public safety, health and social services, street improvement, parks and recreation, and general administrative services. In addition, the City owns and operates a cemetery, sewer system, water system, stormwater system and garbage collection service.

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 statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government’s resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, 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 government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

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

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as a custodian on behalf of others.

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid. In accordance with state law the city also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 5 - Deposits and Investments.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to a maximum of two years-worth of vacation leave based on the employee's current accrual rate and is payable upon separation or retirement. Sick leave may be accumulated 960 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 4 - Debt Service Requirements.

G. 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 ordinance. When expenditures that meet restrictions are incurred, the city intends to use reserved resources first before using unreserved amounts. Reservations of Ending Cash and Investments consist of \$1,413,652

**Note 2 – Budget Compliance**

The city adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level except the general (current expense) fund, where budget is adopted at the department 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. For reporting purposes, management funds have been combined into a single fund. The following funds have been combined:

General Fund combines managerial funds: 001, 100, 109, 113, 114 and 115

Water fund combines managerial funds: 400, 405, 409, 403 and 412

Sewer fund combines managerial funds: 401, 404, 407, 403 and 413

Stormwater fund combines managerial funds: 406, 410

Cemetery fund (103) has been numbered as fund 415 for reporting purposes; combines with 621

CR Equipment fund (104) has been numbered as fund 315 for reporting purposes.

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

<b>EXPENDITURES</b>				
Fund	Fund Name	Final Appropriated	Actual Expenditures	Variance
001	General Fund			
	Legislative	\$53,612	\$57,141	(\$3,529)
	Executive	\$79,201	\$84,663	(\$5,462)
	Finance/Administration	\$141,545	\$136,061	\$5,484
	Grants	\$35,594	\$22,514	\$13,080
	Legal	\$58,703	\$52,441	\$6,262
	Other Governmental	\$125,900	\$120,286	\$5,614
	Law Enforcement	\$1,093,994	\$1,162,865	(\$68,871)
	Law Enforcement - Court	\$183,500	\$213,509	(\$30,009)
	Emergency Management	\$9,411	\$6,411	\$3,000
	Code Enforcement	\$90,250	\$88,625	\$1,625
	Planning/Community Development	\$301,953	\$359,948	(\$57,995)
	Building	\$247,900	\$243,131	\$4,769
	Public Health	\$1,200	\$1,665	(\$465)
	Library	\$6,500	\$6,587	(\$87)
	Park/Recreation	\$185,399	\$161,974	\$23,425
	Miscellaneous (Transfers Out)	\$57,000	\$16,906	\$40,094
	<b>Sub Total General Fund</b>	<b>\$2,671,662</b>	<b>\$2,734,726</b>	<b>(\$63,064)</b>

100	General Fund Contingency	\$0	\$0	\$0
109	Community Improvement Fund	\$5,700	\$5,584	\$116
113	Building Maintenance Fund	\$372,034	\$301,942	\$70,092
114	Information Tech Fund (IT)	\$164,361	\$157,095	\$7,266
115	Insurance Claim Fund	\$14,030	\$14,030	\$0
	<b>Total General Funds</b>	<b>\$3,227,787</b>	<b>\$3,213,377</b>	<b>\$14,410</b>
101	Street Fund	\$278,496	\$274,713	\$3,783
415	Cemetery Fund	\$29,125	\$28,133	\$992
315	C.R. Equipment Fund	\$100,000	\$78,986	\$21,014
108	Street Impact Fee Fund	\$618,000	\$200,000	\$418,000
112	Park Impact Fee Fund	\$158,000	\$158,000	\$0
203	Limited Tax Bond GO	\$2,566,982	\$2,567,982	(\$1,000)
205	Unlimited Tax GO Bond	\$33,373	\$33,373	\$1
207	LID Guaranty Fund	\$273,700	\$251,702	\$21,999
117	Timber Ridge Settlement	\$10,000	\$0	\$10,000
301	Capital Project Fund REET 1	\$85,000	\$40,000	\$45,000
302	Capital Project Fund REET 2	\$350,000	\$0	\$350,000
303	Street Improvement Fund	\$5,166,241	\$4,384,903	\$781,338
305	Park Improvement Fund	\$539,000	\$340,378	\$198,622
400	Utility Water Fund	\$1,417,780	\$1,386,446	\$31,334
405	C.R. Water Utility Fund	\$450,000	\$94,901	\$355,099
409	Water System Improvement Fund	\$1,659,015	\$588,049	\$1,070,966
412	Water System Debt Fund	\$218,685	\$218,599	\$86
403	Water/Sewer Revenue Bond Fund	\$215,800	\$33,849	\$181,951
401	Utility Sewer Fund	\$1,613,550	\$1,565,995	\$47,555
404	C.R. Sewer Utility Fund	\$1,081,275	\$58,018	\$1,023,257
407	Sewer System Improvement Fund	\$1,569,869	\$864,949	\$704,920
413	Sewer System Debt Fund	\$183,155	\$183,105	\$50
402	Utility Garbage Fund	\$821,512	\$797,861	\$23,651
406	Storm Water Utility	\$221,260	\$215,994	\$5,266
410	Stormwater System Improvement Fund	\$379,000	\$78,959	\$300,041
621	Cemetery Trust Fund	\$0	\$0	\$0
	<b>TOTAL ALL FUNDS</b>	<b>\$23,266,605</b>	<b>\$17,658,270</b>	<b>\$5,608,335</b>

Budgeted amounts are authorized to be transferred between 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.

The City amended the 2019 Budget as follows:

Revenue	ORIGINAL BUDGET	Ord 1317-19 Amendment	Revised Budget
Fund Name			
001 General Fund	\$2,482,752	\$229,200	\$2,711,952
415 Cemetery Fund	\$25,300	\$4,000	\$29,300
109 Community Improvement Fund	\$4,500	\$1,200	\$5,700
114 Information Technology Fund	\$95,716	69,361	\$165,077
115 Insurance Claim Fund	\$0	14,033	\$14,033
203 LTGO Bond Fund	\$0	2,568,000	\$2,568,000
409 Water Capital Construction	\$742,009	917,006	\$1,659,015

410 Stormwater Construction Fund	\$50,210	329,000	\$379,210
412 Water Debt Service	\$64,485	154,300	\$218,785
413 Sewer Debt Service	\$72,300	\$111,155	\$183,455
TOTALS	\$3,537,272	\$4,397,255	\$7,934,527
Expenditures	ORIGINAL BUDGET	Ord 1317-19 Amendment	Revised Budget
Fund Name			
001 General Fund	\$2,477,436	\$194,226	\$2,671,662
415 Cemetery Fund	\$22,125	\$7,000	\$29,125
109 Community Improvement Fund	\$4,500	\$1,200	\$5,700
114 Information Technology Fund	\$95,000	\$69,361	\$164,361
115 Insurance Claim Fund	\$0	\$14,030	\$14,030
203 LTGO Bond Fund	\$0	\$2,500,817	\$2,500,817
409 Water Capital Construction	\$740,509	\$918,506	\$1,659,015
410 Stormwater Construction Fund	\$50,000	\$329,000	\$379,000
412 Water Debt Service	\$64,385	\$154,300	\$218,685
413 Sewer Debt Service	\$71,955	\$111,200	\$183,155
TOTALS	\$3,525,910	\$4,299,640	\$7,825,550

### **Note 3 – Other Post-Employment Benefits**

During the year ended 2019, the City of Sultan adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS Manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City as required by RCW 41.26. The plan pays for 100% of eligible retiree’s healthcare costs on a pay-as-you-go basis. As of December 31, 2019, the plan had one (1) member, all retirees. As of December 31, 2019, the city’s total OPEB liability was \$439,568, as calculated using the alternative measurement method. For the year ended December 31, 2019, the City paid \$8,328 in benefits.

### **Note 4 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city’s debt transactions for year ended December 31, 2019.

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

Year	Principal	Interest	Total
2020	816,800	288,085	1,104,885
2021	832,485	260,870	1,093,355
2022	849,257	232,137	1,081,395
2023	660,119	203,788	863,907
2024	677,076	186,108	863,184
2025-29	2,972,626	661,983	3,634,609
2030-33	2,681,000	201,475	2,882,475
Totals	\$9,489,365	\$2,034,445	\$11,523,810

## **Note 5 – Deposits and Investments**

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

### **Type of Deposit or Investment**

Bank deposits	\$7,475,921.55
Savings/Money Market	\$101,426.28
Local Government Investment Pool	\$1,187,983.61
U.S. Government Securities	<u>\$4,187,257.10</u>
Total	\$12,952,588.54

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

### **Investments in the State Local Government Investment Pool (LGIP)**

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, online at [www.tre.wa.gov](http://www.tre.wa.gov).

### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial 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 and certificates of deposit 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 6 – Other Disclosures**

1. The Utility Bond Fund (403) is a revenue bond fund for water and sewer and stormwater system improvements. In 2019, the city issued additional revenue bonds in the amount of \$3,334,000 which will be used for several different water, sewer and storm projects.
2. The City has maintained an AA-bond rating on the new revenue bond issue.
3. In 2019, the city issued Limited Tax General Obligation bonds in the amount of \$2,528,000 to complete street projects and building improvements.
4. Fund 104 Equipment Fund and Fund 103 Cemetery Operating Fund have been classified as Special Revenue funds for over 40 years. Neither fund meets the current criteria for a special revenue fund. For reporting purpose beginning with the 2019 report, Fund 104 will be classified as a capital fund and numbered as Fund 315 and Fund 103 will be classified as an enterprise fund under Fund 415.
5. In 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 has closed all public buildings to the public and several employees telecommuted to limit the number of staff in city buildings. Employee staff time was reduced and operations were limited to essential services only. The city has experienced a reduction in revenues in the General Fund due to decreases in sales tax and customer service fees. Management has eliminated all non-essential expenditures and monitors the city finances weekly.

The length of time these measures will be in place, and the full extent of the financial impact on the city is unknown at this time.

6. Lake 16 Dam Failure  
On February 18, 2020 the City of Sultan employees discovered damage to the dam caused by subterranean water seepage. The flow of water was enough to wash away material supporting the dam. On February 21, 2020 under Resolution 20-06, the Mayor declared an emergency stating:

*The Mayor finds and declares there is a critical need to repair the Lake 16 dam in order to restore the city's primary water source for drinking water and fire suppression. The actions taken and to be taken by the Mayor and authorized designees are reasonable and necessary to repair the dam and restore water service for drinking water and for fire suppression.*

Emergency repairs have been completed and the City obtained bond financing to do a permanent repair.

7. Prior year adjustments were made to reconcile over/under statement of beginning cash balances caused by liability accounts in the city's financial system.

## **Note 7 – Pension Plans**

### State Sponsored Pension Plans

Substantially all city's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

#### Public Employees' Retirement System PERS 2 and PERS 3

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

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

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://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 Contributions	Allocation %	Liability (Asset)
PERS 1	82,002	0.011436	439,755
PERS 2/3	120,565	.0014762	143,389
LEOFF 1	0	0.001091	-21,565

#### LEOFF Plan 1

The city also participated 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.

### **Note 8 – Property Tax**

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

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

The City's regular levy for the year 2019 was \$1.42444185 per \$1,000 on an assessed valuation of \$505,180,664 for a total regular levy of \$719,600.48.

In 2019, the city also levied \$.0659276 per \$1,000 on an assessed valuation of \$501,655,649 for a total additional levy of \$33,073.00.

### **Note 9 – Risk Management**

#### **Liability and Property**

The City of Sultan is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2019, there are 191 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property; including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection and Liability; including General, Automobile, and Wrongful Acts, which are included to fit member's various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per occurrence self-insured retention (SIR) of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. Members are responsible for a \$1,000 to \$10,000 deductible for each claim, while the program is responsible for the \$100,000 retention. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the \$100,000 of the self-insured retention, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,910,871.

Property insurance is subject to a per occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Members contract to remain in the program for a minimum of one year and must give notice before December 1 to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2019, were \$2,687,104.78.

### **Health and Welfare**

The City of Sultan 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.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
239.70	Coastal Bank Loan	9/25/2025	248,898	-	31,292	217,606
251.11	LTGO Bond - 2019	12/1/2033	-	2,528,000	-	2,528,000
251.12	Unlimited Tax Bond - Police Bonds	12/1/2024	160,000	-	25,000	135,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>408,898</b>	<b>2,528,000</b>	<b>56,292</b>	<b>2,880,606</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
264.30	Net Pension Liability		723,566	-	140,422	583,144
259.12	Compensated Absence		89,933	138,997	104,641	124,289
263.82	Water - PW02-691-PRE 119	7/1/2022	64,034	-	64,034	-
263.82	Sewer - PW 04-691-064	5/1/2024	419,159	-	69,859	349,300
263.82	Water/Sewer Revenue Bonds 2014	12/1/2033	2,430,000	-	125,000	2,305,000
263.82	Water/Sewer Revenue Bonds 2019	12/1/2033	-	3,334,000	-	3,334,000
264.40	OPEB - LEOFF I		426,437	13,131	-	439,568
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>4,153,129</b>	<b>3,486,128</b>	<b>503,956</b>	<b>7,135,301</b>
<b>Assessment Debt/Liabilities (with commitments)</b>						
253.11	Sewer - LID 97-1	2/15/2023	820,000	-	205,000	615,000
<b>Total Assessment Debt/Liabilities (with commitments):</b>			<b>820,000</b>	<b>-</b>	<b>205,000</b>	<b>615,000</b>
<b>Total Liabilities:</b>			<b>5,382,027</b>	<b>6,014,128</b>	<b>765,248</b>	<b>10,630,907</b>

**City of Sultan**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
<b>Highway Planning and Construction Cluster</b>								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	STPR-002(834)	2,113,004	-	2,113,004	-	2
<b>Total Highway Planning and Construction Cluster:</b>				<b>2,113,004</b>	<b>-</b>	<b>2,113,004</b>	<b>-</b>	
<b>Total Federal Awards Expended:</b>				<b>2,113,004</b>	<b>-</b>	<b>2,113,004</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**CITY OF SULTAN**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2019**

NOTE 1 – BASIS OF ACCOUNTING

This Schedule is prepared on the same basis of accounting as the city financial statements. The city uses the uses BARS for cash basis Local Governments accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATES

The city has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.





## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**City of Sultan**  
**January 1, 2019 through December 31, 2019**

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2019-001	<b>Finding caption:</b> The City’s internal controls over financial statement preparation were inadequate to ensure accurate financial reporting.
<b>Name, address, and telephone of City contact person:</b> Laura Koenig P.O. Box 1199 Sultan, WA 98294 (360) 793-1168	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The city will be providing additional training to staff in the financial statement preparation and review and will also be contracting with an outside third party to perform additional review.</i>	
<b>Anticipated date to complete the corrective action:</b> December 31, 2020	

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>