



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Sequim

For the period January 1, 2020 through December 31, 2021

Published November 23, 2022

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

November 23, 2022

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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, 2020 through December 31, 2021

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 18, 2022.

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.

REPORT ON 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) as a basis for designing 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 above 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 or significant deficiencies may exist that were not identified.


REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.



Pat McCarthy, State Auditor

Olympia, WA

November 18, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Sequim January 1, 2020 through December 31, 2021

Mayor and City Council
City of Sequim
Sequim, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Sequim, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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, 2021 and 2020, on the basis of accounting described in Note 1.

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, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 BARS manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. 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 Schedules are 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 18, 2022 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

November 18, 2022

FINANCIAL SECTION

City of Sequim January 1, 2020 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fund Resources and Uses Arising from Cash Transactions – 2020
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2021
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Notes to Financial Statements – 2021
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Liabilities – 2020

City of Sequim
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 General Fund	111 Street Restricted	112 Affordable Housing
Beginning Cash and Investments					
308	Beginning Cash and Investments	25,882,830	6,493,138	1,284,591	5,623
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	10,515,886	7,868,140	993,918	36,529
320	Licenses and Permits	415,550	415,550	-	-
330	Intergovernmental Revenues	1,839,084	539,781	180,260	-
340	Charges for Goods and Services	9,187,538	466,650	174,709	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	448,977	205,080	27,976	197
Total Revenues:		22,407,035	9,495,201	1,376,863	36,726
Expenditures					
510	General Government	2,113,773	2,111,100	-	-
520	Public Safety	3,875,557	3,804,005	-	-
530	Utilities	6,620,253	147,605	-	-
540	Transportation	1,137,626	1,003,721	133,905	-
550	Natural/Economic Environment	582,962	258,698	-	-
560	Social Services	312,494	312,494	-	-
570	Culture and Recreation	405,623	286,121	-	-
Total Expenditures:		15,048,288	7,923,744	133,905	-
Excess (Deficiency) Revenues over Expenditures:		7,358,747	1,571,457	1,242,958	36,726
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,760,616	719,116	150,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	937,977	37,857	805,000	-
Total Other Increases in Fund Resources:		2,698,593	756,973	955,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,182,807	903,328	159,417	-
591-593, 599	Debt Service	1,229,762	-	-	-
597	Transfers-Out	1,760,616	526,500	134,116	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	579,316	432	522,675	-
Total Other Decreases in Fund Resources:		4,752,501	1,430,260	816,208	-
Increase (Decrease) in Cash and Investments:		5,304,839	898,170	1,381,750	36,726
Ending Cash and Investments					
50821	Nonspendable	25,000	-	-	-
50831	Restricted	7,502,623	-	2,680,241	42,350
50841	Committed	70,241	-	-	-
50851	Assigned	16,212,405	-	-	-
50891	Unassigned	7,377,403	7,391,305	(13,902)	-
Total Ending Cash and Investments		31,187,672	7,391,305	2,666,339	42,350

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, 2021

		115 Lodging Tax Hotel/Motel	120 Police Restricted - NonRoutine	121 Police Asset Seizure	140 Parks Restricted
Beginning Cash and Investments					
308	Beginning Cash and Investments	691,228	288,859	32,576	1,093,327
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	484,555	418,736	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	39,287	-	-
340	Charges for Goods and Services	15,787	5,615	-	157,046
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	17,209	13,478	969	28,518
Total Revenues:		517,551	477,116	969	185,564
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	62,757	8,795	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	324,264	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	91,598
Total Expenditures:		324,264	62,757	8,795	91,598
Excess (Deficiency) Revenues over Expenditures:		193,287	414,359	(7,826)	93,966
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	77,500
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	77,500
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	8,394	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	255,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	263,394	-	-
Increase (Decrease) in Cash and Investments:		193,287	150,965	(7,826)	171,466
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	884,517	369,384	24,750	1,222,764
50841	Committed	-	70,241	-	-
50851	Assigned	-	200	-	42,029
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		884,517	439,825	24,750	1,264,793

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, 2021

		150 Real Estate Excise Tax 2	160 Arts and Culture - Arts Commission	180 American Rescue Plan Act	206 Debt Service Fund - City Hall
Beginning Cash and Investments					
308	Beginning Cash and Investments	408,719	38,922	-	539,817
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	351,381	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	1,067,387	-
340	Charges for Goods and Services	-	570	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,925	429	3,343	4,628
Total Revenues:		356,306	999	1,070,730	4,628
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	27,904	-	-
Total Expenditures:		-	27,904	-	-
Excess (Deficiency) Revenues over Expenditures:		356,306	(26,905)	1,070,730	4,628
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	34,000	-	665,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	34,000	-	665,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	657,425
597	Transfers-Out	165,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		165,000	-	-	657,425
Increase (Decrease) in Cash and Investments:		191,306	7,095	1,070,730	12,203
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	600,025	-	1,070,730	-
50841	Committed	-	-	-	-
50851	Assigned	-	46,018	-	552,020
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		600,025	46,018	1,070,730	552,020

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, 2021

		306 Capital Facilities Fund	350 Real Estate Excise Tax 1	401 Water	402 Sewer
Beginning Cash and Investments					
308	Beginning Cash and Investments	72,062	71,877	5,363,259	9,288,002
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	362,627	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	12,369	-	-	-
340	Charges for Goods and Services	-	-	3,152,387	5,214,774
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	726	1,910	50,636	86,625
Total Revenues:		13,095	364,537	3,203,023	5,301,399
Expenditures					
510	General Government	2,673	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	2,238,116	4,234,532
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,673	-	2,238,116	4,234,532
Excess (Deficiency) Revenues over Expenditures:		10,422	364,537	964,907	1,066,867
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	50,000	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	45,991	49,129
Total Other Increases in Fund Resources:		50,000	-	45,991	49,129
Other Decreases in Fund Resources					
594-595	Capital Expenditures	23,959	-	79,524	8,185
591-593, 599	Debt Service	-	-	201,631	370,706
597	Transfers-Out	-	75,000	270,300	334,700
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	7,059	-	27,503	21,647
Total Other Decreases in Fund Resources:		31,018	75,000	578,958	735,238
Increase (Decrease) in Cash and Investments:		29,404	289,537	431,940	380,758
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	361,415	114,950	114,950
50841	Committed	-	-	-	-
50851	Assigned	101,467	-	5,680,248	9,553,812
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		101,467	361,415	5,795,198	9,668,762

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, 2021

		500	701 Haller Park
		Unemployment	Fund
		Compensation	
Beginning Cash and Investments			
308	Beginning Cash and Investments	169,661	41,169
388 / 588	Net Adjustments	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	-	-
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	1,950	378
Total Revenues:		1,950	378
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	-	-
540	Transportation	-	-
550	Natural/Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		-	-
Excess (Deficiency) Revenues over Expenditures:		1,950	378
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	65,000	-
385	Special or Extraordinary Items	-	-
381, 382, 389, 395, 398	Other Resources	-	-
Total Other Increases in Fund Resources:		65,000	-
Other Decreases in Fund Resources			
594-595	Capital Expenditures	-	-
591-593, 599	Debt Service	-	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	-	-
581, 582, 589	Other Uses	-	-
Total Other Decreases in Fund Resources:		-	-
Increase (Decrease) in Cash and Investments:		66,950	378
Ending Cash and Investments			
50821	Nonspendable	-	25,000
50831	Restricted	-	16,547
50841	Committed	-	-
50851	Assigned	236,611	-
50891	Unassigned	-	-
Total Ending Cash and Investments		236,611	41,547

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, 2020

		Total for All Funds (Memo Only)	001 General Fund	111 Street Restricted	112 Affordable Housing
Beginning Cash and Investments					
308	Beginning Cash and Investments	21,863,818	6,003,372	322,535	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	9,063,132	7,061,446	837,052	5,620
320	Licenses and Permits	390,262	390,262	-	-
330	Intergovernmental Revenues	3,548,920	725,244	2,561,278	-
340	Charges for Goods and Services	10,804,680	504,062	519,869	-
350	Fines and Penalties	422	422	-	-
360	Miscellaneous Revenues	492,266	228,064	24,055	4
Total Revenues:		24,299,682	8,909,500	3,942,254	5,624
Expenditures					
510	General Government	2,006,673	2,006,673	-	-
520	Public Safety	3,736,914	3,676,549	-	-
530	Utilities	6,152,611	97,800	-	-
540	Transportation	1,617,777	822,416	795,361	-
550	Natural/Economic Environment	980,283	634,819	-	-
560	Social Services	247,965	247,965	-	-
570	Culture and Recreation	351,124	294,551	-	-
Total Expenditures:		15,093,347	7,780,773	795,361	-
Excess (Deficiency) Revenues over Expenditures:		9,206,335	1,128,727	3,146,893	5,624
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	127,927	-	-	-
397	Transfers-In	1,737,000	290,000	420,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	191,110	15,345	-	-
Total Other Increases in Fund Resources:		2,056,037	305,345	420,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,076,235	431,854	2,353,362	-
591-593, 599	Debt Service	1,234,294	-	-	-
597	Transfers-Out	1,737,000	512,000	130,000	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	196,138	325	121,474	-
Total Other Decreases in Fund Resources:		7,243,667	944,179	2,604,836	-
Increase (Decrease) in Cash and Investments:		4,018,705	489,893	962,057	5,624
Ending Cash and Investments					
50821	Nonspendable	25,000	-	-	-
50831	Restricted	4,169,674	-	1,449,884	5,623
50841	Committed	65,580	-	-	-
50851	Assigned	15,294,731	-	-	-
50891	Unassigned	6,327,845	6,493,138	(165,293)	-
Total Ending Cash and Investments		25,882,830	6,493,138	1,284,591	5,623

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, 2020

		115 Lodging Tax Hotel/Motel	120 Police Restricted - NonRoutine	121 Police Asset Seizure	140 Parks Restricted
Beginning Cash and Investments					
308	Beginning Cash and Investments	675,771	233,672	32,139	947,414
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	283,860	353,003	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	49,074	96,412	-	-
340	Charges for Goods and Services	12,712	7,166	-	116,999
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	15,276	8,662	437	17,484
Total Revenues:		360,922	465,243	437	134,483
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	60,365	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	345,464	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	35,828
Total Expenditures:		345,464	60,365	-	35,828
Excess (Deficiency) Revenues over Expenditures:		15,458	404,878	437	98,655
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	113,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	113,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	94,691	-	65,741
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	255,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	349,691	-	65,741
Increase (Decrease) in Cash and Investments:		15,458	55,187	437	145,914
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	691,228	223,279	32,576	1,040,419
50841	Committed	-	65,580	-	-
50851	Assigned	-	-	-	52,908
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		691,228	288,859	32,576	1,093,327

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, 2020

		150 Real Estate Excise Tax 2	160 Arts and Culture - Arts Commission	206 Debt Service Fund - City Hall	306 Capital Facilities Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	467,774	25,241	497,041	246,387
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	261,075	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	61,301
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,869	426	7,700	2,072
Total Revenues:		265,944	426	7,700	63,373
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	20,745	-	-
Total Expenditures:		-	20,745	-	-
Excess (Deficiency) Revenues over Expenditures:		265,944	(20,319)	7,700	63,373
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	34,000	695,000	120,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	11,733
Total Other Increases in Fund Resources:		-	34,000	695,000	131,733
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	364,758
591-593, 599	Debt Service	-	-	659,925	-
597	Transfers-Out	325,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	4,674
Total Other Decreases in Fund Resources:		325,000	-	659,925	369,432
Increase (Decrease) in Cash and Investments:		(59,056)	13,681	42,775	(174,326)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	408,719	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	-	38,922	539,817	72,062
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		408,719	38,922	539,817	72,062

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, 2020

		350 Real Estate Excise Tax 1	401 Water Fund	402 Sewer Fund	500 Unemployment Compensation
Beginning Cash and Investments					
308	Beginning Cash and Investments	143,422	5,060,441	7,063,334	104,661
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	261,076	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	55,611	-
340	Charges for Goods and Services	-	2,830,596	6,813,276	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,379	67,371	112,912	-
Total Revenues:		263,455	2,897,967	6,981,799	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	2,146,393	3,908,418	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	2,146,393	3,908,418	-
Excess (Deficiency) Revenues over Expenditures:		263,455	751,574	3,073,381	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	63,490	64,437	-
397	Transfers-In	-	-	-	65,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	131,940	32,092	-
Total Other Increases in Fund Resources:		-	195,430	96,529	65,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	367,817	398,012	-
591-593, 599	Debt Service	-	202,985	371,384	-
597	Transfers-Out	335,000	57,800	122,200	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	15,605	54,060	-
Total Other Decreases in Fund Resources:		335,000	644,207	945,656	-
Increase (Decrease) in Cash and Investments:		(71,545)	302,797	2,224,254	65,000
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	71,877	114,950	114,950	-
50841	Committed	-	-	-	-
50851	Assigned	-	5,248,309	9,173,052	169,661
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		71,877	5,363,259	9,288,002	169,661

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, 2020

		701 Haller Park Fund
		<hr/>
Beginning Cash and Investments		
308	Beginning Cash and Investments	40,614
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	555
Total Revenues:		<hr/> 555
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> -
Excess (Deficiency) Revenues over Expenditures:		<hr/> 555
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> -
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		<hr/> 555
Ending Cash and Investments		
50821	Nonspendable	25,000
50831	Restricted	16,169
50841	Committed	-
50851	Assigned	-
50891	Unassigned	-
Total Ending Cash and Investments		<hr/> 41,169

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, 2021

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Private-Purpose Trust	Custodial
308	Beginning Cash and Investments	11,204	9,045	561	1,598
388 & 588	Net Adjustments	-	-	-	-
310-390	Additions	45,779	32,592	184	13,003
510-590	Deductions	46,834	32,812	746	13,276
	Net Increase (Decrease) in Cash and Investments:	(1,055)	(220)	(562)	(273)
508	Ending Cash and Investments	10,150	8,826	-	1,324

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, 2020

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Custodial
308	Beginning Cash and Investments	9,279	7,144	2,135
388 & 588	Net Adjustments	-	-	-
310-390	Additions	66,385	27,921	38,464
510-590	Deductions	64,459	26,020	38,439
	Net Increase (Decrease) in Cash and Investments:	1,926	1,901	25
508	Ending Cash and Investments	11,204	9,045	2,159

The accompanying notes are an integral part of this statement.

CITY OF SEQUIM
NOTES TO FINANCIAL STATEMENTS
2021

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 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 for proprietary and fiduciary funds are presented using classification that are difference from the ending net position classifications 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 a custodian on behalf of others.

Pension (and Other Employee Benefit) Trust Funds

These funds are used to report fiduciary activities for pension and employee benefits administered through trust.

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law, the City also recognizes expenditures paid during 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 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, 2021 totaled \$831,925, which decreased from the prior year by \$169,165.

F. 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 166 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, prior wrongful acts, 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 \$400 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.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council through ordinance. When expenditures that meet restrictions are incurred, the City intends to use the most restricted resource first.

Restrictions and commitments of Ending Cash and Investments consist of the following: The City's ending fund balance of \$31,197,820 contains \$7,502,623 in restricted and \$70,241 in committed 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, Police Asset Seizure where funds are restricted by legislation, 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, American Rescue Plan Act funds by federal restrictions, and Water & Sewer Debt Service (401/402) by revenue bond covenants that stipulate reserve requirements equal to the amount of the annual payment.

See below for details:

Streets Restricted (111)	<u>Restricted/Committed</u>
<i>SEPA Mitigation and Latecomer Funds</i>	\$142,676
<i>Impact Fees</i>	979,912
<i>Transportation Benefit District Taxes</i>	1,113,729
<i>Real Estate Excise Taxes</i>	58,482
<i>Settlements/Cash Performance Bonds</i>	<u>385,442</u>
	2,680,241
Affordable Housing Tax	42,350
Hotel/Motel Lodging Tax (115)	884,517

MCAG # 0235

Police Restricted (120 and 121)		
<i>Police Asset Seizure</i>	24,750	
<i>Public Safety Tax</i>	368,164	
<i>Donations and Grants</i>	<u>71,461</u>	
	464,375	
Parks Restricted (140)		
<i>Impact Fees</i>	1,160,548	
<i>REET</i>	<u>62,216</u>	
	1,222,764	
REET 1 (150) and REET 2 (350)	961,440	
American Rescue Plan Act	1,070,730	
Water (401) Revenue Bond required reserve	114,950	
Sewer (402) Revenue Bond required reserve	114,950	
Haller Park Trust Fund (701)	<u>16,547</u>	
Fiduciary Funds	<u>10,150</u>	
Total Restricted and Committed Funds	\$7,583,014	

Ending fund balance also include \$25,000 in non-spendable funds.

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)	15,187,261	13,299,142	1,888,119
111 Streets Restricted	3,311,387	1,140,113	2,171,274
115 Lodging Tax	447,521	324,264	123,257
120 Criminal Justice	363,343	326,149	37,194
121 Police Asset Seizure	15,000	8,795	6,205
140 Parks Restricted	698,821	91,598	607,223
150/350 Real Estate Excise Tax	485,063	240,000	245,063
160 Gifting and Donations	45,162	27,903	17,259
180 American Rescue Plan Act	450,000	-	450,000
206 LTGO Debt Service	657,926	657,425	501
306 Capital Facilities	761,283	33,690	727,593
401 Water	4,306,916	3,172,075	1,134,841

MCAG # 0235

402 Sewer	8,599,045	5,382,574	3,216,471
500 Unemployment	98,000	-	98,000
611 Flexible Spending Accounts	45,000	32,811	12,189
621 Police Expendable Trust	20,000	745	19,255
635 Agency	168,327	13,277	155,050
Totals	35,660,055	24,750,560	10,909,495

The General Fund (001), Street-Unrestricted (101), 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 2021, the City Council approved the following significant amendments to the budget:

- \$273,000 was added in additional equipment purchases to the Equipment Reserve (rolled up to the General Fund) to account for unanticipated information technology projects and Public Works vehicles and equipment.
- \$435,000 was added in additional COVID recovery expenditures to the Rainy-Day fund, including increased human services related spending.
- \$500,000 was added in additional transfers out of the General Fund to replenish the Rainy-Day fund. This transfer was funded with unanticipated sales tax and development related receipts.
- \$1,067,000 in American Rescue Plan Act awards and \$450,000 in COVID recovery expenditures were added to a new special revenue fund (180) to track these related funds and expenditures.

NOTE 3 – DEPOSITS & INVESTMENTS

Investments are presented at their original cost. Deposits and investments by type at December 31, 2021 are as follows:

Type of Investment	City’s Own Deposits and Investments	Deposits and Investments held by the City for Others	Total
Bank Deposits	10,272,058	9,280	10,281,338
Certificates of Deposit	2,283,803	95	2,283,898
Local Government Investment Pool	2,229,717	93	2,229,810
US Government Issues	13,130,923	546	13,131,469

MCAG # 0235

Municipal/Local Issues	2,656,058	110	2,656,168
Other	615,111	26	615,136
Totals	31,187,671	10,149	31,197,820

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 2021 was \$1.27266 per \$1,000 based on a 2020 assessed valuation of \$1,308,100,815 for a total regular levy of \$1,664,763. (In 2021, the City Council did NOT approve the allowable 1% increase in property taxes for 2021.)

NOTE 4 – LONG TERM DEBT

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, 2021. The debt service requirements for general obligation bonds, revenue bonds and other liabilities, including interest, are as follows:

Year	Principal	Interest	Total
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2022	565,022	518,680	1,083,702
2023	589,995	496,710	1,086,706
2024	605,683	482,250	1,087,933
2025	621,385	463,029	1,084,413
2026	637,094	443,195	1,080,289
2027-2031	3,265,468	1,895,229	5,160,697
2032-2036	3,266,078	1,281,428	4,547,506
2037-2041	2,791,951	678,443	3,470,394
2042-2046	1,225,000	87,875	1,312,875
Total	13,567,676	6,346,839	19,914,515

*As of December 31, 2021, there was \$831,925 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, 2021, the City had Revenue Debt of \$2,280,000 shared by both the water and sewer utilities to fund their portion of the civic center building completed in 2015.

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, 2021 (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	Allocation %	Liability (Asset)
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	Contribution		
PERS 1 - UAAL	\$224,338	.030117%	\$367,799
PERS 2/3	\$366,618	.038703%	(\$3,855,442)
LEOFF 1		.001095%	(\$37,510)
LEOFF 2	\$95,751	.048033%	(\$2,789,955)

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, 2021, 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, 2021, the City's total OPEB liability was \$399,050, as calculated using the alternative measurement method. For the year ended December 31, 2021, the City paid \$10,287 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 2021, the following inter-local agreements were signed or in effect:

Parties	Services
Arizona State University	Materials Agreement
Association of Washington Cities	Employee Benefit Trust Healthcare Program
City of Forks	Jail Services
City of Port Angeles	Police Department – Mutual Assist

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	Agreement, Purchasing, Solid Waste Disposal, City Attorney Services, Firing Range Use
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, Critical Incident Stress Management
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, Solar Interconnection Agreement, Electric Vehicle Charging Station
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

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	Medical Protection, Burning Permit Process, Confined Space Equipment, Interlocal Emergency Management Services and Operations, Fire Safety Services
Houston-Galveston Area Council	Cooperative Purchasing Agreement
Jamestown S'Klallam Tribe	Letter of Agreement re Roadway System, Wastewater Disposal and Sanitary Sewer Maintenance
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 Auditor	Interagency Data Sharing Agreement
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 Commerce	Energy and Water Efficiency Program, Growth Management Act Update Grant, Agreement and loan for McCurdy Booster Pump Station, CARES Act Funding, Solar Panel Grant
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, North Sequim Avenue Fuel Tax Grant
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 Traffic Safety Commission	Drug Recognition Experts MOU, Target Zero Task Force
Washington Cities Insurance Authority	Insurance and Risk Management Services

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

NOTE 8 – COVID-19 Pandemic

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 known as COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel and in-person interactions.

The City acted promptly by issuing a Proclamation of Civil Emergency in March 2020 that entailed a number of follow-up Emergency Orders impacting the City financially and operationally. The City funded a multitude of community and employee efforts to respond to this emergency. Significant actions taken by the City included:

- Closure of City Hall, refinement of facilities to promote social distancing and implementation of new personnel policies consistent with health official guidelines
- Small Business Rapid Relief grants, administered by the Sequim Chamber of Commerce, and funded by our Rainy-Day fund
- Tourism Grants, funded by our Hotel/Motel fund
- COVID leave for employees
- Additional health and human services funding
- Supplies, equipment and facility improvements to ensure employee health and safety

- and promote remote working
- Additional staffing to support information technology needs (in the world of remote working) as well as emergency management
- Suspension of late fees, shut offs and other concessions for utility customers impacted by COVID-19.

Some of these actions extended into the City's 2021 operations.

Despite the incredible impact of COVID around the country (operationally and financially), the City of Sequim has managed to end the year with healthy ending fund balances and has seen no troubling long-term impacts to our revenues.

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.

NOTE 9 - 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, 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 Intermediary Insurance Services. 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

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 service level differs from month to month and year to year based upon the benefit they receive.

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 resulted in \$2,023,985 in overhead allocations recorded and reported as a reimbursements against the expense.

Also, in 2021, the City changed its practice with respect to collecting revenues for services related to engineering, human resources, finance and city attorney. A portion of these departments are expensed directly to the departments utilizing these services. A total of \$551,064 was expensed directly to other funds (and netted against the general Fund expense line items). Finally, \$283,335 of the 2021 \$388,813 insurance assessment was charged directly to funds based upon their history of insurance claims.

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 2021 was \$993,918. 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

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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 2021 was \$418,736.

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 2019, 2020 and 2021:

		2019			2020			2021		
		Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Operational Summary										
Total Op Revenues	1	2,357,082	4,415,956	6,773,038	2,404,691	4,456,942	6,861,634	2,549,228	4,627,740	7,176,968
Total Ops Expenses		1,626,097	3,394,476	5,020,573	1,790,031	3,719,660	5,509,691	1,998,515	4,125,104	6,123,619
Net Revenues		730,985	1,021,480	1,752,465	614,661	737,282	1,351,943	550,713	502,636	1,053,349
Non-Operation Revenues										
Connection Charges and Interest		625,846	895,901	1,521,747	493,277	2,469,247	2,962,523	653,446	673,660	1,327,106
Available for Parity Bond Debt		1,356,831	1,917,381	3,274,212	1,107,937	3,206,529	4,314,467	1,204,159	1,176,296	2,380,454
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		11.80	16.67	14.24	9.63	27.88	18.76	10.47	10.23	10.35
Available for other purposes		1,241,831	1,802,381	3,044,212	992,937	3,091,529	4,084,467	1,089,159	1,061,296	2,150,454

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, 2018, 2019, 2020 and 2021

Water

	2018	2019	2020	2021
Single Family Residential	2167	2267	2308	2396
Multifamily Residential	58	56	54	49
Commercial	381	337	341	345
Hotel/Motel and RV	13	11	11	12
Public Authority	30	29	29	27
Irrigation	124	122	126	146
Total Retail Connections	2,773	2,822	2,869	2,975

Sewer

	2018	2019	2020	2021
Single Family Residential	2,557	2,673	2,715	2,824
Multifamily Residential	54	55	54	48
Commercial	331	328	328	336
Hotel/Motel and RV	12	12	13	14
Public Authority	25	26	25	27
Total Retail Connections	2,979	3,094	3,135	3,249

2021 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
2021	\$27.31	\$0.00950	\$58.93	\$0.00950	\$145.55	\$0.00950	\$20.47	\$0.00950

- (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 \$0.02777/cf and usage exceeding 1,600 cf. is charged at \$0.03509/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 2021, base rates for other meter sizes were \$27.31 for ¾-inch meters, \$45.59 for 1-inch meters, \$90.92 for 1.5-inch meters and \$272.98 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.

2021 Sewer Rates

	2021	
	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
2020

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 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 presented using the classifications that are similar to the ending balance classification 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 a custodian on behalf of others.

Pension (and Other Employee Benefit) Trust Funds

These funds are used to report fiduciary activities for pension and employee benefits administered through trust.

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law, the City also recognizes expenditures paid during 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 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, 2020 totaled \$1,001,091, which increased from the prior year by \$181,429.

F. 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 162 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. 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 \$400 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.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council through ordinance. When expenditures that meet restrictions are incurred, the City intends to use the most restricted resource first.

Restrictions and commitments of Ending Cash and Investments consist of the following: The City's ending fund balance of \$25,894,035 contains \$4,169,674 in restricted and \$65,580 in committed 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, Police Asset Seizure where funds are restricted by legislation, 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.

See below for details:

Streets Restricted (111)	<u>Restricted/Committed</u>
<i>SEPA Mitigation and Latecomer Funds</i>	\$142,676
<i>Impact Fees</i>	842,169
<i>Transportation Benefit District Taxes</i>	280,038
<i>Real Estate Excise Taxes</i>	81,884
<i>Settlements</i>	<u>103,117</u>
	1,449,884
 Affordable Housing Tax	 5,623

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Hotel/Motel Lodging Tax (115)	691,228
Police Restricted (120 and 121)	
<i>Police Asset Seizure</i>	32,576
<i>Public Safety Tax</i>	223,279
<i>Donations and Grants</i>	65,580
	321,435
Parks Restricted (140)	
<i>Impact Fees</i>	993,671
<i>REET</i>	46,748
	1,040,419
REET 1 (150) and REET 2 (350)	480,596
Water (401) Revenue Bond required reserve	114,950
Sewer (402) Revenue Bond required reserve	114,950
Haller Park Trust Fund (701)	16,169
Sub-Total	4,235,254
Fiduciary Funds	11,204
Total Restricted and Committed Funds	\$4,246,458

Ending fund balance also include \$25,000 in non-spendable funds

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)	13,690,989	12,893,837	797,152
111 Streets Restricted	7,322,569	4,920,196	2,402,373
115 Lodging Tax	497,473	345,465	152,008
120 Criminal Justice	578,538	410,056	168,482
121 Police Asset Seizure	30,000	-	30,000
140 Parks Restricted	409,738	101,570	308,168
150/350 Real Estate Excise Tax	839,500	660,000	179,500
160 Gifting and Donations	44,884	20,745	24,139
206 LTGO Debt Service	660,426	659,925	501

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306 Capital Facilities	1,170,522	369,432	801,090
401 Water	4,522,904	3,228,600	1,294,304
402 Sewer	8,290,232	5,329,073	2,961,159
500 Unemployment	98,000	-	98,000
611 Flexible Spending Accounts	45,000	26,019	18,981
621 Police Expendable Trust	20,000	-	20,000
635 Agency	168,328	38,439	129,889
Totals	38,389,103	29,003,356	9,385,748

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 2020, the City Council approved the following significant amendments to the budget:

- \$89,000 was added in additional FTE costs to the General Fund budget - a IT Technician and a full-time Emergency Management coordinator (increased from part-time), to address increasing workloads related to the City’s COVID-19 response.
- \$50,000 was added to the Hotel/Motel Fund to account for Tourism related grants in response to COVID-19.
- \$455,000 was added to the Rainy-Day Fund to account for Small Business Rapid Relief grants, fees for administration of the grant program and Human Services funding – all related to the City’s COVID-19 response.
- Finally, \$235,000 was added in CARES Act grant funding to support COVID-19 expenses noted above.

NOTE 3 – DEPOSITS & INVESTMENTS

Investments are presented at their original cost. Deposits and investments by type at December 31, 2020 are as follows:

Type of Investment	City’s Own Deposits and Investments	Deposits and Investments held by the City for Others	Total
Bank Deposits	7,877,693	6,507	7,884,201
Other	7,811,243	2,038	7,813,281
Local Government Investment Pool	2,226,897	581	2,227,478

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US Government Securities	7,966,997	2,079	7,969,076
Totals	25,882,830	11,205	25,894,035

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 pools 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 it's 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 2020 was \$1.34723 per \$1,000 based on a 2019 assessed valuation of \$1,196,295,868 for a total regular levy of \$1,611,688. (In 2020, the City Council approved the allowable 1% increase in property taxes for 2021.)

NOTE 4 – LONG TERM DEBT

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, 2020. The debt service requirements for general obligation bonds, revenue bonds and other liabilities, including interest, are as follows:

Year	Principal	Interest	Total
2021	746,236	539,834	1,286,070
2022	613,977	523,944	1,137,921
2023	630,330	509,250	1,139,580
2024	646,706	494,083	1,140,789

2025	663,108	474,142	1,137,250
2026-2030	3,409,890	2,044,089	5,453,979
2031-2035	3,679,432	1,437,701	5,117,132
2036-2040	2,908,076	804,542	3,712,619
2041-2045	1,795,000	173,138	1,968,138
Total	15,092,755	7,000,723	22,093,478

*As of December 31, 2020, there was \$1,001,091 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, 2020, the City had Revenue Debt of \$2,415,000 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 one State Revolving Fund loan, even though it was only partially funded as of December 31, 2020. Therefore, this schedule assumes that the partially funded loans will be fully funded by the time loan payments are due in 2021. This loan is the West Fir Sewer Improvement project with a current balance of \$419,384. Total loan amount authorized is \$769,715.

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, 2020 (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	\$3,284	.000453%	\$15,993
PERS 1 - UAAL	\$209,706	.028935%	\$1,021,562
PERS 2/3	\$347,235	.037692%	\$482,059
LEOFF 1		.001578%	(\$29,801)
LEOFF 2	\$94,814	.048469%	(\$988,697)

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, 2020, 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, 2020, the City's total OPEB liability was \$428,699, as calculated using the alternative measurement method. For the year ended December 31, 2020, the City paid \$9,534 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 2020, 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

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City of Port Angeles	Police Department – Mutual Assist Agreement, Purchasing, Solid Waste Disposal, City Attorney Services
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, Critical Incident Stress Management
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, Solar Interconnection Agreement, Electric Vehicle Charging Station
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

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	Medical Protection, Burning Permit Process, Confined Space Equipment, Interlocal Emergency Management Services and Operations, Fire Safety Services
Houston-Galveston Area Council	Cooperative Purchasing Agreement
Jamestown S'Klallam Tribe	Letter of Agreement re Roadway System, Wastewater Disposal and Sanitary Sewer Maintenance
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 Commerce	Energy and Water Efficiency Program, Growth Management Act Update Grant, Agreement and loan for McCurdy Booster Pump Station, CARES Act Funding, Solar Panel Grant
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, North Sequim Avenue Fuel Tax Grant
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

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

NOTE 8 – COVID-19 Pandemic

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 known as COVID-19. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The City acted promptly by issuing a Proclamation of Civil Emergency in March 2020 that entailed a number of follow-up Emergency Orders impacting the City financially and operationally. The City funded a multitude of community and employee efforts to respond to this emergency. Significant actions taken by the City included:

- Closure of City Hall, refinement of facilities to promote social distancing and implementation of new personnel policies consistent with health official guidelines
- Small Business Rapid Relief grants, administered by the Sequim Chamber of Commerce, and funded by our Rainy-Day fund
- Tourism Grants, funded by our Hotel/Motel fund
- COVID leave for employees
- Additional health and human services funding
- Supplies, equipment and facility improvements to ensure employee health and safety and promote remote working

- Additional staffing to support information technology needs (in the world of remote working) as well as emergency management
- Suspension of late fees, shut offs and other concessions for utility customers impacted by COVID-19.

Some of these expenses were reimbursed by the CARES Act.

Despite the incredible impact of COVID around the country (operationally and financially), the City of Sequim has managed to end the year with healthy ending fund balances and has seen no troubling long-term impacts to our revenues.

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.

NOTE 9 – ACCOUNTING AND REPORTING CHANGES

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 service level differs from month to month and year to year based upon the benefit they receive.

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.

In 2020, and in compliance with the BARS manual, the City switched from recognizing charges to departments/funds as revenues to the General fund. As such, \$2,953,313 in overhead allocations was recorded and reported as a reimbursement against the related General Fund expense.

NOTE 10 - 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, 2020, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, 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

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 2020 was \$837,052. 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

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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 2020 was \$353,003.

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 2018, 2019 and 2020:

		2018			2019			2020		
		Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Operational Summary										
Total Op Revenues		2,241,710	4,403,091	6,644,801	2,357,082	4,415,956	6,773,038	2,404,691	4,456,942	6,861,634
Total Ops Expenses	1	1,581,874	3,257,079	4,838,952	1,626,097	3,394,476	5,020,573	1,790,031	3,719,660	5,509,691
Net Revenues		659,836	1,146,012	1,805,849	730,985	1,021,480	1,752,465	614,661	737,282	1,351,943
Non-Operation Revenues										
Connection Charges and Interest		912,244	1,558,584	2,470,827	625,846	895,901	1,521,747	493,277	2,469,247	2,962,523
Available for Parity Bond Debt		1,572,080	2,704,596	4,276,676	1,356,831	1,917,381	3,274,212	1,107,937	3,206,529	4,314,467
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		13.67	23.52	18.59	11.80	16.67	14.24	9.63	27.88	18.76
Available for other purposes		1,457,080	2,589,596	4,046,676	1,241,831	1,802,381	3,044,212	992,937	3,091,529	4,084,467

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, 2017, 2018, 2019 and 2020

Water

	2017 Customers	2018 Customers	2019 Customers	2020 Customers
Single Family Residential	2,003	2,167	2,267	2,308
Multifamily Residential	58	58	56	54
Commercial	359	381	337	341
Hotel/Motel and RV	13	13	11	11
Public Authority	29	30	29	29
Irrigation	99	124	122	124
Total Retail Connections	2,561	2,773	2,822	2,867

Sewer

	2017 Customers	2018 Customers	2019 Customers	2020 Customers
Single Family Residential	2,391	2,557	2,673	2,715
Multifamily Residential	54	54	55	54

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Commercial	325	331	328	328
Hotel/Motel and RV	12	12	12	12
Public Authority	25	25	26	25
Total Retail Connections	2,807	2,979	3,094	3,134

2020 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
2020	\$27.31	\$0.00950	\$58.93	\$0.00950	\$145.55	\$0.00950	\$20.47	\$0.00950

- (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 \$0.02777/cf and usage exceeding 1,600 cf. is charged at \$0.03509/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 2020, base rates for other meter sizes were \$27.31 for ¾-inch meters, \$45.59 for 1-inch meters, \$90.92 for 1.5-inch meters and \$272.98 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.

2020 Sewer Rates

	2020	
	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
Schedule of Liabilities
For the Year Ended December 31, 2021

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	9,275,000	-	255,000	9,020,000
Total General Obligation Debt/Liabilities:			9,275,000	-	255,000	9,020,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	PWFT Aerobic Digester Loan - 094	6/1/2027	404,444	-	57,778	346,666
252.11	Water Revenue Bond 2014	12/1/2034	1,207,500	-	67,500	1,140,000
252.11	Sewer Revenue Bond 2014	12/1/2034	1,207,500	-	67,500	1,140,000
263.84	DOE Headworks SRF Loan - 131	12/31/2021	166,142	-	166,142	-
263.84	DWSRF - 5th & McCurdy Water Pump Station	10/1/2035	604,031	-	40,269	563,762
263.84	DWSRF - Sunnyside Water Main - 036	10/1/2035	540,931	-	36,062	504,869
263.84	DOE - DWSRF - Doe Run Sewer Lift Station - 00162	6/29/2035	40,528	-	-	40,528
263.84	DOE - DWSRF - Sunnyside Sewer Main - 00177	9/30/2038	411,843	-	19,376	392,467
263.84	DOE Water Quality Loan - W. Fir Street Sewer - 00129	3/30/2041	419,384	-	-	419,384
259.12	Compensated Absences		1,001,090	-	169,165	831,925
264.30	Pension Liabilities		1,519,614	-	1,151,815	367,799
264.40	LEOFF 1 Liability		428,699	-	29,649	399,050
Total Revenue and Other (non G.O.) Debt/Liabilities:			7,951,706	-	1,805,256	6,146,450
Total Liabilities:			17,226,706	-	2,060,256	15,166,450

City of Sequim
Schedule of Liabilities
For the Year Ended December 31, 2020

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	9,525,000	-	250,000	9,275,000
Total General Obligation Debt/Liabilities:			9,525,000	-	250,000	9,275,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	PWTF Aerobic Digester Loan - 094	6/1/2027	462,222	-	57,778	404,444
252.11	Water Revenue Bond 2014	12/1/2034	1,272,500	-	65,000	1,207,500
252.11	Sewer Revenue Bond 2014	12/1/2034	1,272,500	-	65,000	1,207,500
263.84	DOE Headworks SRF Loan - 131	12/31/2021	329,976	-	163,834	166,142
263.84	DWSRF - 5th & McCurdy Water Pump Station	10/1/2035	644,299	-	40,269	604,030
263.84	DWSRF - Sunnyside Water Main - 036	10/1/2035	513,926	63,490	36,485	540,931
263.84	DOE DWSRF - Doe Run Sewer Lift Station - 162	6/29/2038	34,306	6,221	-	40,527
263.84	DOE DWSRF - Sunnyside Sewer Main - 177	6/29/2038	430,855	-	19,012	411,843
263.84	DOE Water Quality Loan - W. Fir Street Sewer - 129	9/30/2040	361,168	58,216	-	419,384
259.12	Compensated Absences		819,662	181,429	-	1,001,091
264.30	Pension Liabilities		1,455,189	64,425	-	1,519,614
264.40	LEOFF 1 Liability		382,920	45,779	-	428,699
Total Revenue and Other (non G.O.) Debt/Liabilities:			7,979,523	419,560	447,378	7,951,705
Total Liabilities:			17,504,523	419,560	697,378	17,226,705

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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