



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Edmonds

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

Published March 6, 2023

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

March 6, 2023

Mayor and City Council
City of Edmonds
Edmonds, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Edmonds January 1, 2021 through December 31, 2021

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

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

<u>ALN</u>	<u>Program or Cluster Title</u>
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2021-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2021-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Edmonds January 1, 2021 through December 31, 2021

2021-001 The City did not have adequate internal controls ensuring accurate reporting of grant funds received in advance and the elimination of interfund reimbursements in their financial statements.

Background

State and federal agencies, the City Council, and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and its financial statements are accurate.

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP).

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding.

Description of Condition

American Rescue Plan Act revenue recognition

In 2021, the City received in advance \$5,843,775 of American Rescue Plan Act of 2021 (ARPA) grant funds, and it incurred eligible ARPA expenditures of \$1,116,283. The City did not have a process in place to properly evaluate whether it had met revenue recognition criteria for grants received in advance, including incurring eligible expenditures, as required to recognize the grant funds received as revenue.

Interfund reimbursement eliminations

The City allocated expenditures centrally paid for by its General Fund to the City's other funds. The City's other funds then reimbursed the General Fund for their share of the expenditures. Our audit found the City did not have a process in place to eliminate interfund transfers when combining funds for financial reporting.

We found these internal control deficiencies to represent a material weakness.

Cause of Condition

American Rescue Plan Act revenue recognition

The City typically receives grant funding on a reimbursement basis, under which it incurs eligible expenditures before receiving grant funding. ARPA funds were distributed to the City before it had incurred eligible expenditures. As a result, City employees misinterpreted the revenue recognition criteria for the unspent ARPA funds, which should be reported as unearned revenue, a liability, until the applicable eligibility requirements are met.

Interfund reimbursement eliminations

The City has historically recognized centralized services provided by its General Fund as revenues for the General Fund. City employees relied on this historical practice without considering whether it was in accordance with GAAP.

Effect of Condition

We found the following errors in the City's financial statements:

American Rescue Plan Act revenue recognition

- The City did not report the Edmonds Rescue Plan Fund as a major fund.
- The City overstated intergovernmental revenue and restricted fund balances by \$4,727,492 each, and understated unearned revenue by the same amount.

The City subsequently corrected these errors in the financial statements.

Interfund reimbursement eliminations

- The City overstated Governmental Activities operating grants and contributions revenue and restricted net position by \$4,727,492 each, and understated unearned revenue by the same amount.
- The City overstated General Fund revenues and expenditures by \$3,060,185.

The City subsequently corrected the errors in the Governmental Activities opinion unit, but not the error in the General Fund.

Recommendation

We recommend the City improve its controls to ensure it properly classifies and reports grant funds received in advance, and eliminates interfund reimbursements

in accordance with GAAP. This includes evaluating whether the City has met revenue recognition criteria.

City's Response

The City of Edmonds appreciates the efforts of the State Auditor's Office. The City is committed to ensuring that the Annual Report is prepared in accordance with Generally Accepted Accounting Principles. The City acknowledges its oversight in classifying the revenues received under the federal SLFRF program. This oversight was corrected by the City during the audit review process. We would like to note that in the past the City has routinely received large amounts of grant revenue or bond revenue before the City incurs the related expenditures. We have nearly always recorded these receipts as a Credit to Revenue (rather than a Credit to Unearned Revenue as proposed by the Auditor's Office), and recording the proceeds in this way has always passed audit. This past practice was the primary reason we recorded our ARPA proceeds to Revenue. The City has several layers of review and approval over financial transactions and development of the Annual Report. Steps have been taken to improve our review procedures and the City is confident that this oversight will not reoccur going forward. In addition, the City has included proper accounting for grant revenue in the City's annual review process.

Regarding the Interfund Reimbursement Eliminations, the City has recognized income and expense recognition for central services in this manner for many years, and this methodology has always passed audit. This is the first time that this issue has been brought to our attention. The City is currently examining what the effects of making this change will be, as we will need to make significant changes in the way we budget for central services and report their impacts to the financial statements.

Auditor's Remarks

City management is responsible for the proper accounting and presentation of its financial statements in accordance with generally accepted accounting principles. We appreciate the City's commitment to resolving this issue. We reaffirm the finding.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material

weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

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

RCW 43.09.200, Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.3, Internal Control, required each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objective.

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Paragraph 15.

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, Paragraphs 59 and 112.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Paragraph 10.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Edmonds January 1, 2021 through December 31, 2021

2021-002 The City's internal controls were inadequate for ensuring compliance with federal requirements for allowable costs, suspension and debarment, and subrecipient monitoring.

Assistance Listing Number and Title:	21.027 – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds
Federal Grantor Name:	U.S. Department of the Treasury
Federal Award/Contract Number:	WA0365
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Known Questioned Cost Amount:	\$176,369

Background

The purpose of the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program is to respond to the COVID-19 pandemic's negative effects on public health and the economy, provide premium pay to essential workers during the pandemic, provide government services to the extent COVID-19 caused a reduction in revenues collected, and make necessary investments in water, sewer or broadband infrastructure.

During 2021, the City spent \$1,219,058 in program funds to cover additional costs it had incurred during the pandemic, including expenditures supporting public health, household utility relief, and direct assistance payments to local businesses and nonprofit organizations financially affected by COVID-19. The program funds also included \$468,761 passed through to four subrecipients to fulfill components of the program's objectives. The portion of program funds the City passed through to the subrecipients provided emergency assistance to households and job retraining for people financially affected by COVID-19.

Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

Allowable Costs

For the SLFRF program, the costs must have been necessary for responding to the COVID-19 pandemic and not incurred before March 3, 2021. All costs charged to the SLFRF program must comply with program requirements and be supported by proper documentation demonstrating funds are spent on allowable costs.

Suspension and Debarment

Federal regulations prohibit recipients from contracting with, purchasing from or making subawards to parties suspended or debarred from doing business with the federal government. Whenever the City contracts for goods or services expected to equal or exceed \$25,000 and for all subawards, irrespective of award amount, paid all or in part with federal funds, it must verify a contractor's or subrecipient's status by checking for exclusion records in the System for Award Management (SAM.gov), obtaining a written certification from the contractor or subrecipient, or inserting a clause or condition into the contract stating the contractor or subrecipient is not suspended or debarred. The City must perform this verification before entering into the contract or making the subaward, and keep documentation demonstrating compliance with this federal requirement.

Subrecipient Monitoring

Whenever passing federal funding to subrecipients, federal regulations require the City to monitor them and ensure they comply with the terms and conditions of the federal award. To determine the appropriate level of monitoring, the City must evaluate each subrecipient's risk of noncompliance with federal requirements. For these awards, monitoring would include verifying the subrecipients only provided assistance to participants who met eligibility requirements and claimed reimbursement for allowable costs.

Description of Condition

Allowable Costs

The City established four eligibility criteria for local businesses and three eligibility criteria for utility assistance support, but it did not have a process in place for verifying beneficiaries met all the criteria before providing them assistance payments. For some of the criteria, the City relied on applicants' self-attestation without verifying the information was accurate to ensure beneficiaries were eligible to receive assistance payments.

Suspension and Debarment

During 2021, the City paid more than \$25,000 to one contractor and established subaward agreements with four subrecipients without ensuring they were not suspended and debarred from participating in federal programs at the time it contracted for the purchases or made the subawards.

Subrecipient Monitoring

The City subawarded program funds to two local colleges for job retraining programs and two nonprofit agencies to provide housing support grants. The City did not perform risk assessments for the two colleges, and it did not monitor each subrecipient for compliance with program requirements, as federal regulations require.

We consider these deficiencies in internal controls to be material weaknesses, which led to material noncompliance. These issues were not reported in the prior audit.

Cause of Condition

Many businesses and people experienced sudden financial hardship due to the COVID-19 pandemic. In an effort to help preserve the local economy, the City acted quickly by providing assistance payments to businesses and passing funds to nonprofit organizations it had worked with in the past for other programs. However, the SLFRF program was a new type of federal funding for the City, and before the pandemic, it had not previously used federal funds to provide direct assistance payments to businesses and people. The City also experienced employee turnover in positions responsible for administering these federal awards.

As such, City employees lacked adequate experience and needed training to know they should have independently verified each beneficiary met all eligibility criteria before awarding assistance. Further, City employees were not aware of all federal requirements involved when passing funding through to subrecipients or for checking suspension and debarment status before contracting for purchases or making subawards with other parties.

Effect of Condition and Questioned Costs

Allowable Costs

Without obtaining documentation from business grant applicants or residents seeking utility relief to verify they met all eligibility criteria, the City cannot ensure these expenditures were allowable. During the audit, we gave the City an

opportunity to obtain documentation from businesses and recipients to support their eligibility. We reviewed the information provided by the City and found the following:

- Small business support: The City provided financial assistance to 21 businesses without first obtaining documentation to show each business met its established eligibility criteria. During the audit, the City followed up with these businesses, but did not receive adequate documentation from any of them. Therefore, we are questioning \$174,161 in costs charged to the program.
- Utility bill support: The City did not obtain documentation to confirm residents did not earn more than 60 percent of the City's median income before approving each grant. During the audit, the City obtained documentation from six of the 10 residents that received support to show they met eligibility criteria. We are questioning \$2,208 in costs for amounts paid to the remaining four residents, as well as a portion of a payment paid to one of the other six residents because it exceeded the program maximum set by the City.

Suspension and Debarment

The City did not obtain written certifications, insert clauses into contracts, or check SAM.gov to verify the contractor or four subrecipients were not suspended or debarred before contracting or subawarding funds. The City paid the contractor \$27,547 and the four subrecipients a total of \$468,761.

Without adequate internal controls, the City cannot ensure it pays federal funds only to parties that are eligible to participate in federal programs. Any payments made to an ineligible party would be unallowable, and the awarding agency could potentially recover them. During our audit, the City provided support showing the contractor and all four subrecipients were not currently suspended or debarred. Therefore, we are not questioning costs.

Subrecipient Monitoring

Because the City did not perform risk assessments and adequately monitor subrecipients, it cannot ensure it is performing the proper level of monitoring and that subrecipients complied with program requirements. During our audit, the City completed the remaining two risk assessments and performed monitoring for all four subrecipients to verify they complied with program requirements and only provided assistance to eligible participants. The City identified eligibility issues totaling \$2,227 and invoicing errors totaling \$1,260. The City took steps to correct these errors in subsequent reimbursements to the subrecipients.

Recommendation

We recommend the City:

- Provide adequate training to staff responsible for administering federal programs
- Dedicate the necessary time and resources to staying updated on program guidance and ensuring compliance with all program requirements
- Verify that beneficiaries of public funds meet all of the City's eligibility criteria before awarding funds
- Verify contractors paid \$25,000 or more and all subrecipients, paid all or in part with federal funds, are not suspended or debarred before contracting for purchases or making subawards
- Assess subrecipients' risk and monitor them accordingly to verify they are complying with the terms and conditions of the award and only providing funds to eligible participants

City's Response

The City of Edmonds appreciates the efforts of the State Auditor's Office. The City is committed to establishing and following effective internal controls for administering federal grants and for compliance with federal uniform guidance for grant administration, and to monitor any transactions with subrecipients to ensure compliance with federal requirements.

During 2020 and 2021, the City endeavored to distribute pandemic relief funds as expeditiously as possible into the community where support was most needed due to the devastating impact on residents and businesses because of the COVID-19 pandemic. We worked very hard to distribute these funds quickly and efficiently, which we believe had a very significant, positive impact on our community. In our attempts to get the grant money into the community as quickly as possible, the City made certain errors in how the City distributed funds.

The errors we made during 2020 resulted in the City receiving a Finding from the State Auditor's Office for that year. We did not receive the additional guidance, training, or resources needed to effectively correct these errors until we were well into 2021, and so we were unable to begin correcting these errors until late in 2021. We have added consulting staff to provide better monitoring of the distribution of current and future grants funds. We have also provided staff with the time, resources, and training necessary to avoid these errors from occurring again.

Auditor's Remarks

We thank the City for its commitment to resolving this issue. We will follow up on the status of this finding during our next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 403, Factors affecting allowability of costs, establishes general criteria costs must meet in order to be allowable under Federal award.

Title 2 CFR Part 180, OMB *Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, establishes non-procurement debarment and suspension regulations, implementing Executive Orders 12549 and 12689.

Title 2 CFR Part 200, Uniform Guidance, section 332, Requirements for pass-through entities, establishes subrecipient monitoring and management requirements for pass through entities.

CITY OF EDMONDS

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**FINANCE AND INFORMATION SERVICES DEPARTMENT****SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

City of Edmonds
January 1, 2021 through December 31, 2021

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

Audit Period: 2020	Report Reference No.: 1030259	Finding Ref. No.: 2020-001	CFDA Number(s): 21.019
Federal Program Name and Granting Agency: U.S. Department of the Treasury		Pass-Through Agency Name: Washington State Department of Commerce, Snohomish County, and Economic Alliance Snohomish County	
Finding Caption: The City's internal controls were inadequate for ensuring compliance with federal requirements for allowable activities and costs and subrecipient monitoring.			
<p>Background: During fiscal year 2020, the City spent \$2,123,907 in program funds to cover additional costs the City incurred during the pandemic, including teleworking equipment, personal protective equipment, and payroll. Additionally, the City spent \$1,345,500 of these funds to establish a program that provided direct assistance payments to local businesses financially affected by COVID-19. The program funds also included \$456,344 passed through to four subrecipients to fulfil components of the program's objectives.</p> <p>The City did not obtain proper documentation demonstrating how local businesses met eligibility criteria as required by the Department of Treasury. Questioned costs were \$871,500.</p> <p>The City did not perform monitoring activities as required by Title 2 <i>U.S. Code of Federal Regulations (CFR) §200.332, Requirements for pass-through entities</i> (Uniform Guidance) to ensure subrecipients comply with the terms and conditions of the federal award. In response to the audit, the City performed the required monitoring activities and found that subrecipients did not have adequate documentation to show that they provided assistance to participants who met eligibility requirements and claimed reimbursement for allowable costs. Questioned costs were \$456,344.</p>			
<p>Status of Corrective Action: (check one)</p> <p> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid </p>			

Corrective Action Taken:

The City is in the process of implementing the corrective action necessary to respond to this finding. As we have previously stated, the 2020 administration and dissemination of CARES funds came early in the Pandemic, a difficult time for everyone. Like many other cities in Washington, we endeavored to distribute funds to the community quickly, and were subject to grant requirements that we had never before encountered and were unfamiliar with. A large part of the reason we received a finding in 2020 was because of the extraordinarily constricting restrictions imposed by the CARES Ordinances passed in 2020.

The bulk of the audit work for the 2020 fiscal year was performed late in 2021, and the final audit report was not delivered until March of 2022. Due to this timing, many of the mistakes made in 2020 were repeated in 2021. Over the last twelve months we have worked diligently to implement the controls necessary to manage the ARPA grants received in 2021 and 2022. We have hired a grants consultant to help ensure improved current and future compliance. We firmly believe that our overall grants administration improved significantly during 2021, and we have continued to make improvements to our processes in 2022.

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 Edmonds January 1, 2021 through December 31, 2021

Mayor and City Council
City of Edmonds
Edmonds, 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 governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Edmonds, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001 that we consider to be material weaknesses.

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*.

CITY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this

report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

February 28, 2023

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Edmonds January 1, 2021 through December 31, 2021

Mayor and City Council
City of Edmonds
Edmonds, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Adverse Opinion on 21.027 – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

We have audited the compliance of the City of Edmonds, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, because of the significance of the matter described below, the City did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 21.027 – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds for the year ended December 31, 2021.

Basis for Adverse Opinion on 21.027 – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 adverse opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Matters Giving Rise to Adverse Opinion on 21.027 – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding 21.027 – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds as described in finding number 2021-002 for Allowable Costs/Cost Principles and Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;

- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures also disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-002. Our opinion on each major federal program is not modified with respect to Suspension and Debarment. Our opinion is modified on each major federal program with respect to Allowable Costs and Subrecipient Monitoring.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-002 that we consider to be a material weakness.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

February 28, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Edmonds January 1, 2021 through December 31, 2021

Mayor and City Council
City of Edmonds
Edmonds, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Edmonds, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Edmonds, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Edmonds Rescue Plan funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 as a whole 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
- 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

February 28, 2023

FINANCIAL SECTION

City of Edmonds January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet – Governmental Funds – 2021

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds – 2021

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2021

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2021

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2021

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Edmonds Rescue Plan Fund – 2021

Statement of Net Position – Proprietary Funds – 2021

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2021

Statement of Cash Flows – Proprietary Funds – 2021

Statement of Fiduciary Net Position – 2021

Statement of Changes in Fiduciary Net Position – 2021

Notes to the Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios – Firemen's Pension Fund Other Post-Employment Benefits – 2021

Schedule of Changes in the City's Net Pension Liability and Related Ratios – Firemen's Pension Fund – 2021

Schedule of City Contributions – Firemen's Pension Fund – 2021

Schedules of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,
LEOFF 1, LEOFF 2 – 2021

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2021

Notes to the Schedule of Expenditures of Federal Awards – 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis section of this provides an overview of the City's financial activities for the year ended December 31, 2021. The purpose is to highlight significant financial issues, major financial activities and resulting changes in the financial position and economic factors affecting the City. The reader is encouraged to consider the information presented here in conjunction with the information furnished in the Letter of Transmittal, the City's financial statements and the accompanying notes following the financial information.

Financial Highlights

- The regional, national and global economies were still impacted in 2021 by the pandemic brought on by the COVID-19 virus. While some industries were devastated – travel/tourism and in-person entertainment such as concerts and sporting events, for example – the City's revenue performance remained surprisingly strong in 2021. Total Taxable Assessed property values in the City increased by 6 percent over 2020 (Statistical Section, Schedule 7).
- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at fiscal year-end by \$224.1 million (net position), an increase of \$25.8 million over 2020. Of this amount, \$148.6 million is a net investment in capital assets. The unrestricted net position totals \$34.2 million and may be used to meet the city's ongoing obligations to citizens and creditors. In addition, the restricted net position totals \$41 million and is earmarked for debt service, capital projects, special revenue funds and pension costs.
- The City's total net position improved by \$25.8 million in 2021. Governmental activities increased by \$12.7 million and business-type activities increased by \$13 million.
- Governmental funds reported a combined ending fund balance of \$41.0 million; a \$6.4 million increase from the prior year. Of this amount, \$20.4 million is unassigned and available to fund ongoing activities. The committed fund balance category totals \$3 million and the assigned fund balance category totals \$2 million. The 2021 unassigned fund balance equals 48.9% of 2021 general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Edmonds basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information contained in the report is intended to furnish additional detail to support the basic financial statements.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Edmonds as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the city's financial position in a manner like that of the private-sector business. These statements are reported on the full accrual basis of accounting. Under the full accrual basis, certain revenues and expenses are reported that will not affect the cash flows until future periods.

The focus of the **Statement of Net Position** is designed to be similar to bottom-line results for the City and its governmental and business-type activities. This statement presents all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual reported as net position. Over time, increases or decreases in net position may be one indicator of improvement or deterioration in the City's overall financial health.

The **Statement of Activities** presents both the gross and net cost of various functions, including both governmental and business-type activities, which are supported by the City's general tax and other revenues. This is intended to summarize and simplify the reader's analysis of the cost of various governmental services

and/or subsidy to various business-type activities. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed.

Governmental activities of the City include general government (executive, finance, legal, human resources, and court), public safety, utilities and environment, transportation, economic environment, mental and physical health, and culture and recreation. The City's business-type activities include water, sewer, and storm utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The City also includes as a discretely presented component unit the Edmonds Public Facilities District (PFD), a performing arts center in Edmonds, and the PFD's blended component unit, the Edmonds Center for the Arts, a non-profit established to collect donations and manage the operations for the PFD. Although legally separate, the PFD is important because the City provides financial support and oversight responsibilities connected to the activities of the board.

Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type, such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City of Edmonds, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The City presents three categories of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining which financial resources are available in the near future to finance City programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. The Governmental Funds' Balance Sheet and the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison.

Information for the major governmental funds is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund's Statement of Revenues, Expenditures, and Changes in Fund Balances; information for the non-major funds is presented in the aggregate.

The City's main operating fund is the General Fund. However, the City maintains many accounts and eight sub-funds within the General Fund. The remaining governmental funds are combined into a single column labeled non-major governmental funds. Individual fund data for each of the non-major governmental funds can be found in combining statements later in the report.

The City maintains control over its operating funds through the adoption of an annual budget. Budgets are adopted at the fund level and accordance with state law. A budgetary comparison is presented for the General Fund as part of the basic financial statements. The basic governmental fund financial statements can be found after the government-wide statements of this report.

Proprietary funds account for services for which the City charges outside customers and other City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, since both use the accrual basis of accounting. Proprietary funds report the same functions

presented as business-type activities in the government-wide financial statements.

The City has two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided to City departments.

The enterprise fund statements provide information for the City's water, sewer, and storm water utilities. The City uses internal service funds to account for its fleet of vehicles and its technology equipment. Because these internal services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found following the governmental fund statements of this report.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals or other entities. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support City programs. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position as part of the basic financial statements. The basic fiduciary fund financial statements can be found following the proprietary fund statements of this report. The financial activity of the Firemen's Pension Fund, which has formerly been reported as a Fiduciary Fund, was moved to the General Fund during 2021.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning pensions and other post-employment benefits. Additional information can be found in Note 10 – Pension Plans and Note 11 – Other Post-Employment Benefits.

Government-wide Financial Analysis

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's financial condition. The following two tables address the financial results of the City as a whole. The first table is a condensed version of the 2021 government-wide statement of net position with a comparison to 2020:

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 84,504,692	\$ 54,428,570	\$ 39,720,317	\$40,144,165	\$ 124,225,009	\$ 94,572,735
Capital assets, net	83,547,367	78,793,002	126,413,235	113,972,003	209,960,602	192,765,005
Total assets	168,052,059	133,221,572	166,133,552	154,116,168	334,185,611	287,337,740
Deferred outflows of resources	2,417,608	2,689,090	326,343	436,657	2,743,951	3,125,747
Deferred outflows of resources	2,417,608	2,689,090	326,343	436,657	2,743,951	3,125,747
Total assets and deferred outflows of resources	170,469,667	135,910,662	166,459,895	154,552,825	336,929,562	290,463,487
Current liabilities	12,635,294	6,320,709	6,337,981	6,960,202	18,973,275	13,280,911
Noncurrent liabilities	22,386,540	21,227,359	52,072,754	54,672,191	74,459,294	75,899,550
Total liabilities	35,021,834	27,548,068	58,410,735	61,632,393	93,432,569	89,180,461
Deferred inflows of resources	16,878,292	2,537,375	2,478,123	387,703	19,356,415	2,925,078
Deferred inflows of resources	16,878,292	2,537,375	2,478,123	387,703	19,356,415	2,925,078
Total liabilities and deferred inflows of	51,900,126	30,085,443	60,888,858	62,020,096	112,788,984	92,105,539
NET POSITION						
Net investment in capital assets	75,944,654	76,233,673	72,704,847	68,391,695	148,649,501	144,625,368
Restricted	35,884,276	16,255,342	5,400,412	3,296,724	41,284,688	19,552,066
Unrestricted	6,740,611	13,336,204	27,465,778	20,844,310	34,206,389	34,180,514
Total net position	\$ 118,569,541	\$105,825,219	\$ 105,571,037	\$92,532,729	\$ 224,140,578	\$198,357,948

Analysis of Net Position

Total net position (assets and deferred outflows, minus liabilities and deferred inflows) of the primary government was \$224.1 million at December 31, 2021 an improvement of \$25.8 million or 13% compared to December 31, 2020. Governmental activities increased their net position by \$12.7 million and business-type activities increased their net position by \$13.0 million.

The largest component of the City's net position, \$148.6 million, or 66.3%, is its investment in capital assets. These capital assets, such as streets, parks, trails, and vehicles and equipment related to police and public works, are used to provide services to the citizens. As a result, these assets are not for sale, and are therefore not available to fund current and future City obligations.

Approximately \$41.3 million of the primary government's total net position is restricted for debt service payments, transportation improvements, pensions, and other purposes, an increase of \$21.7 million compared to 2020. The primary government's December 31, 2021 unrestricted net position totals \$34.2 million, virtually unchanged from December 31, 2020.

The December 31, 2021 governmental activities unrestricted net position of \$6.7 million may be used to meet ongoing obligations to citizens and creditors. There are no restrictions, commitments, or other limitations that significantly affect the availability of these resources for future use.

Restricted governmental fund net position is \$35.9 million. Approximately \$13.7 million is restricted for purposes such as public safety, transportation, culture and recreation, and other purposes and \$22.2 million is restricted for pensions.

Unrestricted net position of the City's business-type activities totals \$27.5 million, representing the portion of unrestricted net position that may only be spent on activities related to one of the City's utilities (water, sewer, and storm water). Examples of utility activities include maintenance of water/sewer mains, pump and lift stations, storm drain flushing, water meter reading, and the wastewater treatment plant.

Changes in Net Position

The change in net position represents the increase or decrease in City net position resulting from its various activities. The following table is a condensed version of the City's changes in net position and compares 2021 results with 2020. This table shows program revenues, their respective expenses and the overall changes in net position for both governmental-type and business-type activities:

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program revenues:						
Charges for services	\$ 12,256,228	\$ 12,634,784	\$ 29,074,503	\$ 27,280,123	\$ 41,330,731	\$ 39,914,907
Operating grants and contributions	1,820,016	2,619,351	54,112	25,297	1,874,128	2,644,648
Capital grants and contributions	2,849,167	2,158,357	6,807,778	5,511,256	9,656,945	7,669,613
General revenues:						
Property taxes	14,671,656	14,599,185	-	-	14,671,656	14,599,185
Sales taxes	11,698,718	9,397,119	-	-	11,698,718	9,397,119
Interfund utility taxes	2,382,313	2,359,529	-	-	2,382,313	2,359,529
Utility taxes	4,081,583	4,133,662	-	-	4,081,583	4,133,662
Excise taxes	7,450,746	6,248,492	-	-	7,450,746	6,248,492
Interest and investment earnings	348,388	691,210	139,800	165,842	488,188	857,052
Miscellaneous	470,853	552,738	3,357	3,544	474,210	556,282
Gains on disposition of assets	115,896	273,183	-	-	115,896	273,183
Total revenues	58,145,564	55,667,610	36,079,550	32,986,062	94,225,114	88,653,672
EXPENSES						
Governmental activities:						
General government	13,815,118	16,103,089	-	-	13,815,118	16,103,089
Public safety	20,332,127	25,261,314	-	-	20,332,127	25,261,314
Utilities and environment	231,245	229,528	-	-	231,245	229,528
Transportation	4,183,318	4,885,398	-	-	4,183,318	4,885,398
Economic environment	1,238,234	1,461,200	-	-	1,238,234	1,461,200
Mental and physical health	84,642	147,957	-	-	84,642	147,957
Culture and recreation	5,428,474	4,682,914	-	-	5,428,474	4,682,914
Interest on long-term debt	88,618	146,808	-	-	88,618	146,808
Business-Type activities:						
Water Fund	-	-	7,528,628	7,573,014	7,528,628	7,573,014
Storm Fund	-	-	4,070,878	5,021,779	4,070,878	5,021,779
Sewer Fund	-	-	11,441,202	10,930,526	11,441,202	10,930,526
Total expenses	45,401,776	52,918,208	23,040,708	23,525,319	68,442,484	76,443,527
Excess (deficiency) before transfers	12,743,788	2,749,402	13,038,842	9,460,743	25,782,630	12,210,145
Transfers	534	731	(534)	(731)	-	-
Increase (decrease) in net position	12,744,322	2,750,133	13,038,308	9,460,012	25,782,630	12,210,145
Net position - beginning	105,825,219	103,075,086	92,532,729	83,072,717	198,357,948	186,147,803
Net position - ending	\$118,569,541	\$105,825,219	\$ 105,571,037	\$ 92,532,729	\$ 224,140,578	\$ 198,357,948

Analysis of the Changes in Net Position

Net position of the primary government increased by \$25.8 million, due to both an increase in revenues and a decrease in expenditures. An increase in sales tax, excises taxes and federal ARPA money contributed to the increase in revenues. Total government-wide revenues of the primary government increased by \$5.6 million or 6.3% and total expenses decreased by \$8.0 million or 10.50% over the prior year. These changes are discussed in more detail below.

Governmental Activities:

The table above shows the net position for Governmental activities increased by \$12.7 million. This increase is the result of an increase in total revenues combined with a reduction of total expenses in 2021. Governmental activity expenses decreased by \$7.5 million or 14.2% and Governmental activity revenues increased by \$2.5 million, or 4.5% from 2021 levels.

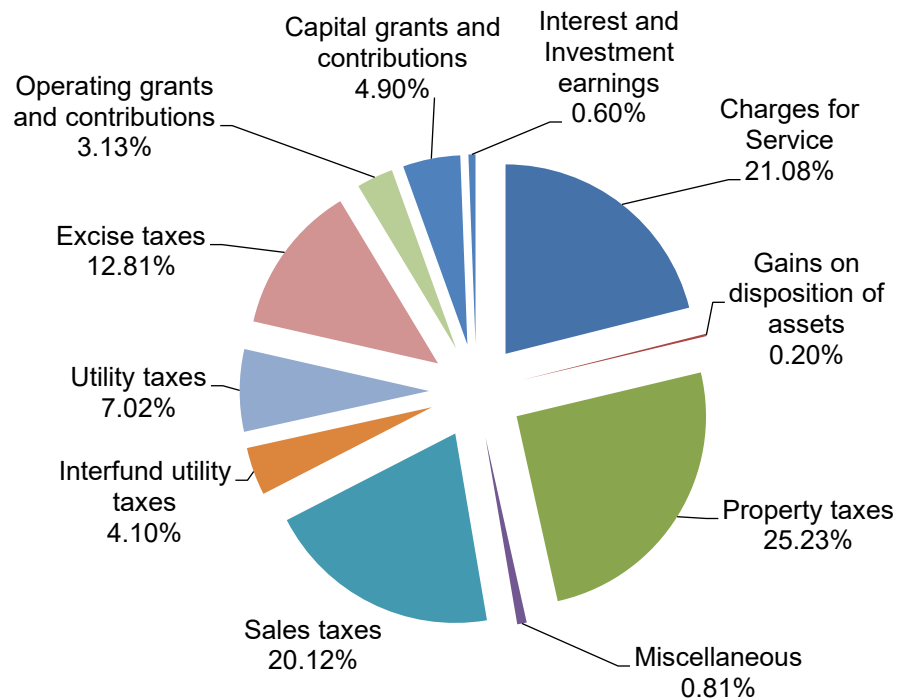
The expense decrease is largely due to a decrease in pension expense. The pension plans the City participates in are fully funded so the City recorded a negative expense in 2021 offset by a net pension asset - see Note 10. In addition, payments made to South County Fire decreased in 2021, due to retro payments received and made during 2020 for late billings applicable to previous years. Continued cutbacks due to the pandemic also caused decreases to professional services and construction projects. There was also a \$698,296 decrease in the federal grant money spent between 2021 and 2020.

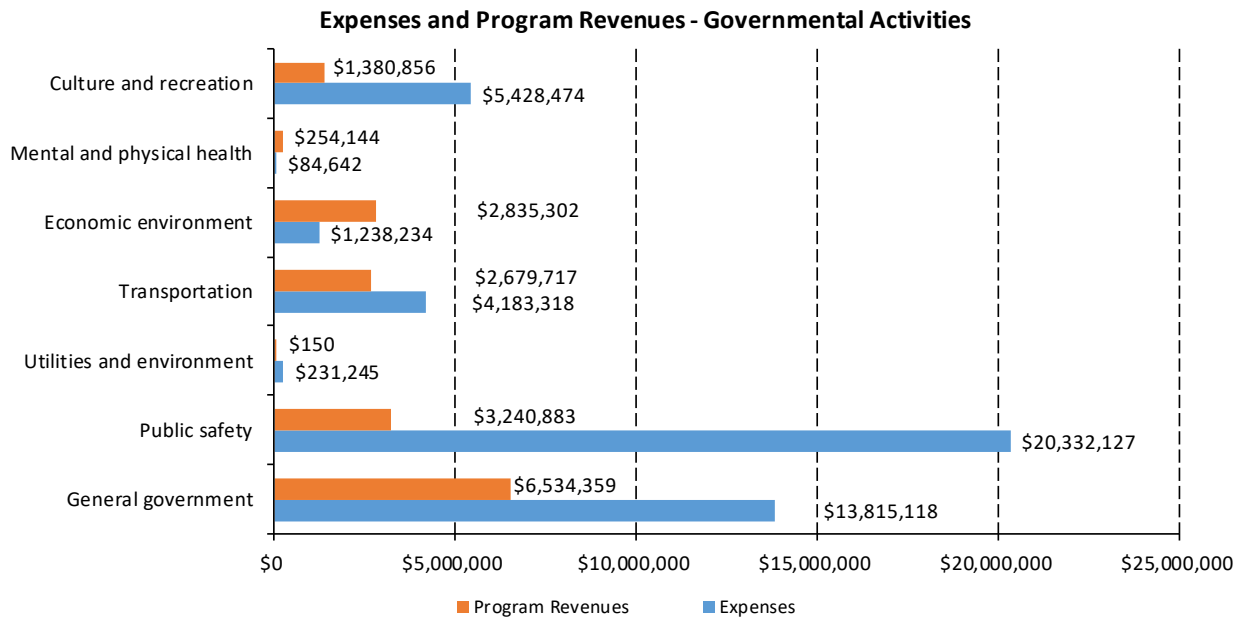
Below are additional significant changes to revenues for 2021:

- As a result of continued low interest rates, Interest and Investment Earnings decreased by \$342,838, or 49.6%.
- Property tax revenue increased \$72,471 or 0.5%.
- Sales tax collections increased by \$2,301,599, or 24.5%.
- Excise taxes increased by \$1,202,254 or 19.2%.

The next chart summarizes the government activity revenue by source, while the second one reflects the specific programs' revenues and related expenses for the various activities of the City. Gaps between specific programs' revenues and their related expenditures are funded through general tax revenues.

Revenues by Source - Governmental Activities



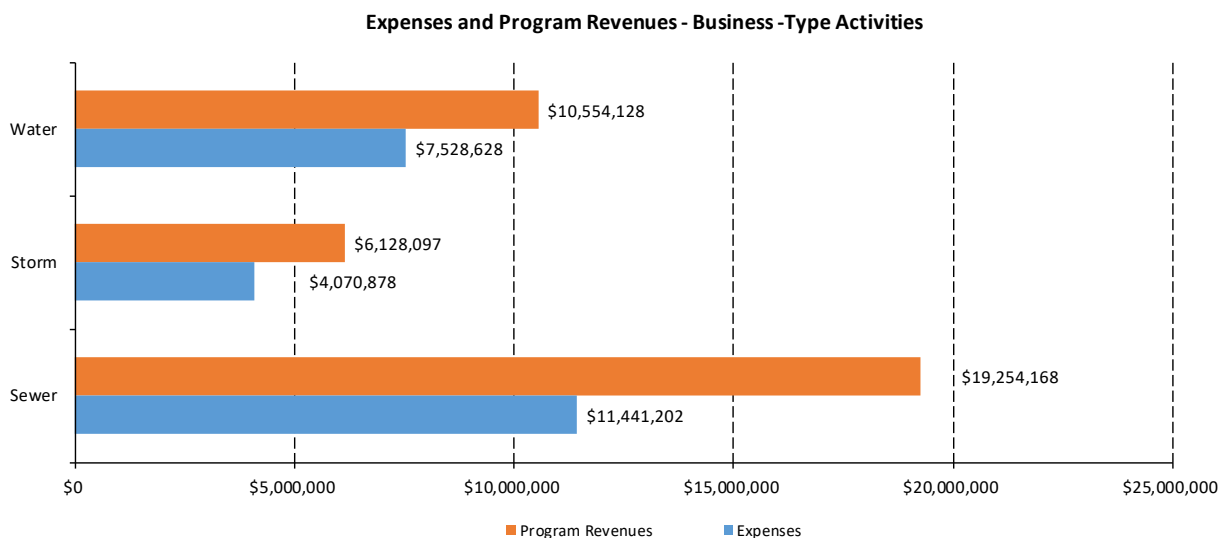


Business-type Activities:

Business-type activities net position increased by \$13.0 million, or 14.1%. Multiple factors contributed to this increase. There was a rate increase for each of the City's three utilities, with the largest one at 9.5% for storm drain. Due to the pandemic and supply chain slowdowns there was a decrease in construction projects. There was also a decrease in the pension expense in the business-type activities as noted above.

The majority of net position in the City's enterprise funds relate to capital asset infrastructure, such as water and sewer mains, storm water infrastructure, and the wastewater treatment plant. As such, most of the net position is not available to support the ongoing expenses of the funds.

The following chart depicts major sources of revenue for business-type activities:



Financial Analysis of the City's Funds

As noted earlier, the City of Edmonds uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

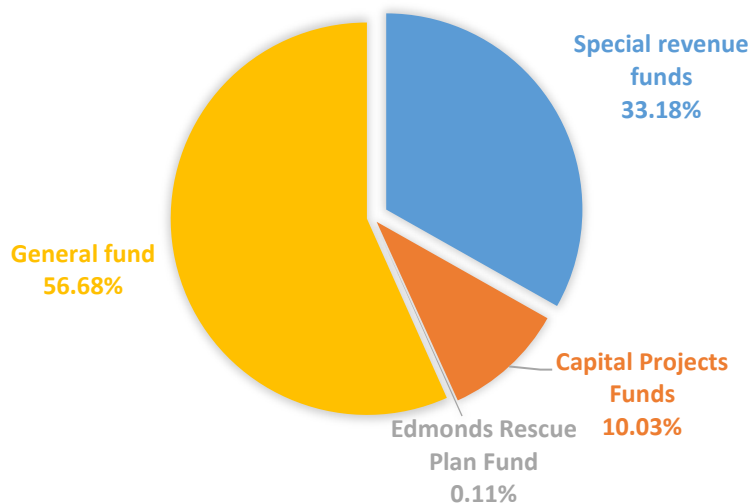
Governmental funds

The purpose of the City's governmental funds is to report on near-term revenues/financial resources and expenditures. This information helps determine the City's financial requirements in the near future. Specifically, fund balance is a good indicator of the City's financial resources.

As of December 31, 2021, the City's governmental funds had combined fund balances of \$41.0 million, an increase of \$6.4 million or 18.6% from 2020. Approximately 49.7% or \$20.4 million of this amount constitutes unassigned General Fund balance, which is available for spending at the City Council's discretion, and \$2 million is assigned for future development of Civic Park. The 2021 unassigned fund balance equals 48.9% of 2021 General Fund expenditures, indicating that the City is in a strong financial position. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed for debt service payments, public safety, transportation, recreation and other purposes.

The General Fund, Fund 001, is the primary operating fund of the City. Primarily due to strong tax revenues the 2021 fund balance experienced an increase of \$5.8 million or 33.3% from 2020. The following chart shows the relative fund balances for governmental funds:

GOVERNMENTAL FUNDS - FUND BALANCE



Proprietary funds

The City of Edmonds' proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the combined utility funds at the end of the year amounted to \$27.5 million, a \$6.6 million increase over 2020. The change in total net position for the three funds was a \$13.0 million increase.

General Fund Budgetary Highlights

The City of Edmonds produces an annual budget document to fulfill the Community's vision for where City resources should be directed. The budget reflects the City Council's goals of maintaining long-term financial health and stability in the City's General Fund and reserves, while continuing the delivery of high-quality services to citizens.

The original 2021 General Fund expenditure budget of \$46 million was amended to include additional appropriations of \$1.1 million, the majority of which was for salaries and benefits due to authorizing positions in the parks department, police department and development services department; a COLA increase due to

union contract negotiations; and the reclassification of certain positions. The budget increase also included carryforwards for several projects carried over from 2020. A comparison of the actual performance of the General Fund revenue on a budgetary basis to the final budget indicates that total actual revenues (excluding transfers) exceeded budgeted revenues by \$1.5 million. This was primarily due to increases in sales tax and excise tax coming in higher than projected.

Total actual expenditures excluding transfers were under budget by \$4.2 million or 9.0% in the General Fund. The under expenditures are mainly from reduced salaries and benefits, pension and disability payments, travel, professional services and interfund transfers.

Capital Asset and Debt Administration

Capital Assets

The City of Edmonds' investment in capital assets for governmental and business-type activities as of December 31, 2021 amounts to \$148.6 million (net of accumulated depreciation), an increase of \$4.0 million from 2020. This investment in capital assets includes land and construction in progress, which are not subject to depreciation. Other capital assets, including buildings, improvements other than buildings, infrastructure, machinery and equipment, and intangible assets, are subject to depreciation.

Governmental type capital assets (net of depreciation) totaled \$83.5 million in 2021, an increase of \$4.7 million from 2020. Business-type capital assets (net of depreciation) totaled \$126.4 million, an increase of \$12.4 million from 2020. In addition to the effects depreciation, these changes are the result of capitalizing construction in progress, and acquisition of machinery and equipment. More information on the City's Capital Assets can be found in Note 9 – Capital Assets and Depreciation.

A summary of the City's capital assets, net of accumulated depreciation, follows:

	Governmental Activities		Business-Type Activities		Total	
	As of 12/31/21	As of 12/31/20	As of 12/31/21	As of 12/31/20	As of 12/31/21	As of 12/31/20
	(in thousands)					
Land	\$ 18,010	\$ 17,688	\$ 1,257	\$ 1,257	\$ 19,267	\$ 18,945
Building	7,175	7,283	14,780	15,460	21,955	22,743
Improvements other than buildings	18,621	14,232	81,312	78,439	99,934	92,672
Infrastructure	25,268	26,640	-	-	25,268	26,640
Machinery and Equipment	5,045	5,113	439	492	5,484	5,604
Intangible Assets	-	-	47	29	47	29
Construction in Progress	9,427	7,836	28,579	18,295	38,006	26,132
Total	\$ 83,547	\$ 78,793	\$ 126,413	\$ 113,972	\$ 209,961	\$ 192,765

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$61.7 million. Of this amount, \$12.4 million is general obligation bonds for governmental activities, \$6.6 million is general obligation bonds for business-type activities and \$42.8 million is revenue bonds for business-type activities for the City-operated utilities. The City currently maintains a rating of AAA for the 2019 and 2021 LTGO Bonds and AA for the 2020 Water and Sewer Revenue Bonds with Standard & Poor's and Aa1 for the 2012 LTGO Bonds and Aa2 for the 2013 and 2015 Water and Sewer Revenue Bonds with Moody's.

The following schedule summarizes the City's long-term debt. For additional detailed information on long-term debt activity please see Notes 12 and 13.

	Governmental Activities		Business-Type Activities		Total	
	As of 12/31/21	As of 12/31/20	As of 12/31/21	As of 12/31/20	As of 12/31/21	As of 12/31/20
General Obligation Debt	\$ 12,370,000	\$ 7,759,103	\$ 6,585,000	\$ 1,478,884	\$ 18,955,000	\$ 9,237,987
Revenue Bonds	-	-	42,765,000	52,255,000	42,765,000	52,255,000
Notes from Direct Borrowing	683,931	318,283	2,674,895	1,576,283	3,358,826	1,894,566
Total	<u>\$ 13,053,931</u>	<u>\$ 8,077,386</u>	<u>\$ 52,024,895</u>	<u>\$ 55,310,167</u>	<u>\$ 65,078,826</u>	<u>\$ 63,387,553</u>

Economic Factors and Future Budgets

Principal factors influencing the City's 2021 budget include continued improvement in sales tax and excise tax revenues stemming from the improving retail sales, sales of real estate, and construction activity in the City, and continued slow growth in the overall economy.

The City Council adopted the 2022 budget in November of 2021. Our budget reflects the City Council's goals, maintains the long-term financial health and stability of our General Fund and reserves, and continues the delivery of high-quality services for our community. The 2022 Adopted Budget includes these initiatives:

- \$150,000 to fund a new Race, Equity, Diversity and Inclusion Manager.
- \$610,000 continued funding for the City's new Human Services Program.
- \$50,000 to enhance our arts & culture through the Edmonds Center for the Arts.
- \$50,000 to support the new Edmonds Waterfront Center/Senior Center.
- An increase in the City's Public Information Officer from a half-time to full-time position.
- Funding for an "Uptown City Hall" to be located in the Highway 99 area of the City
- \$120,000 for an ADA transition plan.
- \$350,000 to improve the City's Electric Vehicle Charging Network infrastructure.
- \$1.6 million for citywide improvements to bicycle transportation.
- \$700,000 set aside for Open Space, with plans to add to that every year.
- \$10 million to complete construction of Civic Park.
- \$150,000 for a Rooftop Solar program.
- \$400,000 for Green Streets and Rain Gardens.
- \$8.6 million for the Highway 99 Revitalization and Gateway Project.
- \$2 million for the City's pavement overlay program.

Requests for Information

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about this report, please contact the Finance Director, 121 Fifth Avenue North, Edmonds, Washington, WA 98020.

City of Edmonds
Statement of Net Position
December 31, 2021

	Primary Government			Component Unit
	Governmental	Business-type		Edmonds Public Facilities
	Activities	Activities	Total	District
ASSETS				
Current assets:				
Cash & equity in pooled investments	\$ 32,348,402	\$ 20,285,020	\$ 52,633,422	\$ 1,045,333
Deposits with trustees	35,711	-	35,711	-
Investments	7,776,920	3,852,588	11,629,508	-
Taxes receivable	251,770	-	251,770	-
Customer accounts	630,347	4,326,972	4,957,319	56,225
Court receivable	245,710	-	245,710	-
Other receivable	-	-	-	27,531
Interest on investments	336,681	-	336,681	-
Due from other governments	4,132,897	2,823,261	6,956,158	226,819
Due from component unit	210,000	-	210,000	-
Inventory of materials & supplies	40,718	177,796	218,514	5,270
Prepayments	-	-	-	127,302
Total current assets	46,009,156	31,465,637	77,474,793	1,488,480
Noncurrent assets:				
Restricted cash and cash equivalents	11,131,368	6,141,947	17,273,315	378,815
Due from component unit - long-term	3,636,887	-	3,636,887	-
Restricted net pension asset	22,166,353	2,112,733	24,279,086	438,012
Investment in joint venture	1,560,928	-	1,560,928	-
Depreciable capital assets (net)	56,110,416	96,577,280	152,687,696	6,709,382
Non Depreciable capital assets	27,436,951	29,835,955	57,272,906	3,444,885
Total noncurrent assets	122,042,903	134,667,915	256,710,818	10,971,094
Total assets	168,052,059	166,133,552	334,185,611	12,459,574
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - Debt refunding	30,788	17,399	48,187	-
Deferred outflows of resources - Pension	2,386,820	308,944	2,695,764	126,296
Total deferred outflows of resources	2,417,608	326,343	2,743,951	126,296
Total assets and deferred outflows of resources	170,469,667	166,459,895	336,929,562	12,585,870
LIABILITIES				
Current liabilities:				
Accounts payable	3,699,544	2,339,185	6,038,729	108,861
Accrued wages	1,295,749	244,153	1,539,902	99,194
Internal balances	(248,562)	248,562	-	-
Due to other governmental units	-	206,224	206,224	-
Other current liabilities	186,418	952,771	1,139,189	-
Accrued bond interest payable	32,130	153,299	185,429	7,991
Deposits payable	-	8,048	8,048	37,975
Total other post employment liability	372,000	-	372,000	-
Due within one year	2,570,523	2,185,739	4,756,262	494,211
Unearned Revenue	4,727,492	-	4,727,492	509,376
Total current liabilities	12,635,294	6,337,981	18,973,275	1,257,608
Noncurrent liabilities:				
Pension liabilities	1,541,887	211,985	1,753,872	41,839
Total other post employment liability	6,756,161	-	6,756,161	-
Due in more than one year	14,088,492	51,860,769	65,949,261	5,682,418
Total noncurrent liabilities	22,386,540	52,072,754	74,459,294	5,724,257
Total liabilities	35,021,834	58,410,735	93,432,569	6,981,865
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - Debt refunding	54,219	206,370	260,589	-
Deferred inflows of resources - Pension	16,824,073	2,271,753	19,095,826	535,873
Total deferred inflows of resources	16,878,292	2,478,123	19,356,415	535,873
Total liabilities and deferred inflows of resources	51,900,126	60,888,858	112,788,984	7,517,738
NET POSITION				
Net investment in capital assets	75,944,654	72,704,847	148,649,501	4,060,497
Restricted for:				
Customer Deposits	-	8,048	8,048	-
Debt Service	-	3,279,631	3,279,631	1,043,646
Public Safety	75,174	-	75,174	-
Transportation	3,189,614	-	3,189,614	-
Economic Environment	145,134	-	145,134	-
Social Services	159,414	-	159,414	-
Culture and Recreation	10,133,107	-	10,133,107	-
Other	15,480	-	15,480	-
Pensions	22,166,353	2,112,733	24,279,086	-
Unrestricted	6,740,611	27,465,778	34,206,389	(36,011)
Total net position	\$ 118,569,541	\$ 105,571,037	\$ 224,140,578	\$ 5,068,132

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Activities
For the Year Ended December 31, 2021

Page 1 of 2

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 13,815,118	\$ 6,456,830	\$ 5,749	\$ 71,780
Public safety	20,332,127	2,797,262	264,894	178,727
Utilities and environment	231,245	-	150	-
Transportation	4,183,318	468,832	155,803	2,055,082
Economic environment	1,238,234	1,576,759	1,258,543	-
Mental and physical health	84,642	254,144	-	-
Culture and recreation	5,428,474	702,401	134,877	543,578
Interest on long-term debt	88,618	-	-	-
Total governmental activities	<u>45,401,776</u>	<u>12,256,228</u>	<u>1,820,016</u>	<u>2,849,167</u>
Business-type activities:				
Water Utility	7,528,628	10,314,465	2,992	236,671
Storm Utility	4,070,878	5,911,884	50,000	166,213
Sewer Utility	<u>11,441,202</u>	<u>12,848,154</u>	<u>1,120</u>	<u>6,404,894</u>
Total business-type activities	<u>23,040,708</u>	<u>29,074,503</u>	<u>54,112</u>	<u>6,807,778</u>
Total primary government	<u>\$ 68,442,484</u>	<u>\$ 41,330,731</u>	<u>\$ 1,874,128</u>	<u>\$ 9,656,945</u>
Component Unit				
Edmonds Public Facilities District	<u>2,271,521</u>	<u>1,513,578</u>	<u>1,012,712</u>	<u>1,200,152</u>
Total component unit	<u>\$ 2,271,521</u>	<u>\$ 1,513,578</u>	<u>\$ 1,012,712</u>	<u>\$ 1,200,152</u>

General revenues
Property taxes
Sales taxes
Interfund utility taxes
Utility tax
Excise Taxes
Interest and investment earnings
Miscellaneous
Gains on disposition of assets
Transfers
Total General revenues and Transfers
Change in net position
Net position - beginning
Net position - ending

The notes to financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Edmonds Public Facilities District
\$ (7,280,759)	\$ -	\$ (7,280,759)	\$ -
(17,091,244)	-	(17,091,244)	-
(231,095)	-	(231,095)	-
(1,503,601)	-	(1,503,601)	-
1,597,068	-	1,597,068	-
169,502	-	169,502	-
(4,047,618)	-	(4,047,618)	-
(88,618)	-	(88,618)	-
(28,476,365)	-	(28,476,365)	-
-	3,025,500	3,025,500	-
-	2,057,219	2,057,219	-
-	7,812,966	7,812,966	-
-	12,895,685	12,895,685	-
(28,476,365)	12,895,685	(15,580,680)	-
			1,454,921
			1,454,921
14,671,656	-	14,671,656	-
11,698,718	-	11,698,718	-
2,382,313	-	2,382,313	-
4,081,583	-	4,081,583	-
7,450,746	-	7,450,746	-
348,388	139,800	488,188	461
470,853	3,357	474,210	-
115,896	-	115,896	-
534	(534)	-	-
41,220,687	142,623	41,363,310	461
12,744,322	13,038,308	25,782,630	1,455,382
105,825,219	92,532,729	198,357,948	3,612,750
\$ 118,569,541	\$ 105,571,037	\$ 224,140,578	\$ 5,068,132

City of Edmonds
Balance Sheet
Governmental Funds
December 31, 2021

	General Fund	Edmonds Rescue Plan Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 9,225,212	\$ 4,878,452	\$ 13,776,126	\$ 27,879,790
Investments	3,251,395	-	3,118,557	6,369,952
Deposits with trustee	35,711	-	-	35,711
Property taxes receivable	251,770	-	-	251,770
Customer accounts	629,542	-	-	629,542
Interest on investments	232,472	-	73,010	305,482
Court Receivable	245,710	-	-	245,710
Interfund receivable	248,562	-	-	248,562
Due from other governments	2,415,182	-	1,717,715	4,132,897
Due from component unit	3,846,887	-	-	3,846,887
Restricted cash and investments	9,203,516	-	1,927,852	11,131,368
Total assets	<u>\$ 29,585,959</u>	<u>\$ 4,878,452</u>	<u>\$ 20,613,260</u>	<u>\$ 55,077,671</u>
LIABILITIES				
Accounts payable	\$ 741,676	\$ 106,072	\$ 2,767,031	\$ 3,614,779
Wages and benefits payable	1,167,565	-	86,447	1,254,012
Other current liabilities	146,840	-	39,578	186,418
Unearned revenues	3,863,208	4,727,492	-	8,590,700
Total liabilities	<u>5,919,289</u>	<u>4,833,564</u>	<u>2,893,056</u>	<u>13,645,909</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - property taxes	214,751	-	-	214,751
Deferred inflows of resources - court receivable	209,192	-	-	209,192
Total deferred inflow of resources	<u>423,943</u>	<u>-</u>	<u>-</u>	<u>423,943</u>
Total liabilities and deferred inflows of resources	<u>6,343,232</u>	<u>4,833,564</u>	<u>2,893,056</u>	<u>14,069,852</u>
FUND BALANCES (DEFICITS)				
Restricted	-	44,888	15,600,888	15,645,776
Committed	848,616	-	2,119,316	2,967,932
Assigned	2,000,000	-	-	2,000,000
Unassigned	20,394,111	-	-	20,394,111
Total fund balances (deficits)	<u>23,242,727</u>	<u>44,888</u>	<u>17,720,204</u>	<u>41,007,819</u>
Total liabilities and fund balances (deficits)	<u>\$ 29,585,959</u>	<u>\$ 4,878,452</u>	<u>\$ 20,613,260</u>	<u>\$ 55,077,671</u>

The notes to financial statements are an integral part of this statement.

CITY OF EDMONDS, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

Total governmental fund balances as reported on this statement \$ 41,007,819

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. These assets consist of:

Land	\$ 18,009,932	
Construction in progress	<u>9,427,019</u>	
Subtotal: Non-depreciable capital assets	27,436,951	
Investment in joint venture	1,560,928	
Buildings	25,119,523	
Improvements other than buildings	29,582,404	
Infrastructure	65,203,951	
Machinery and equipment - general government	10,651,397	
Less: Accumulated depreciation	<u>(74,446,859)</u>	
Subtotal: Depreciable capital assets	56,110,416	
		85,108,295

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Net Pension Asset (\$448,393 attributable to internal service funds)	22,166,352	
Deferred outflow of resources - bond refunding	30,788	
Deferred outflow of resources - pension (\$55,628 attributable to internal service funds)	2,386,820	
Deferred inflow of resources - property tax	214,751	
Deferred inflow of resources - court receivable	<u>209,192</u>	
		25,007,903

Internal service funds are used by management to charge the cost of equipment maintenance to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net position. Capital assets of \$4,584,667 are included in the capital asset adjustment above. The compensated absence liability and the pension amounts are included in the appropriate categories with a note.

5,821,800

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

General obligation bonds	(13,334,547)	
Compensated absences (\$117,876 attributable to internal service funds)	(2,640,537)	
Public works trust fund loans	<u>(683,931)</u>	
Subtotal: Long-term debt payable	(16,659,015)	
Accrued interest payable	(32,130)	
Total pension liabilities (\$44,990 attributable to internal service funds)	(1,541,887)	
Total other post employment benefit liability	(7,128,161)	
Deferred inflow of resources - bond refunding	(54,219)	
Deferred inflow of resources - pension (\$460,073 attributable to internal service funds)	(16,824,072)	
Unearned revenues reported in the Balance Sheet - Governmental Funds are not reported in the government-wide Statement of Net Position (Note 1)	3,863,208	
		(38,376,276)

Net position of government activities as reported on the statement of net position

\$ 118,569,541

The notes to the financial statements are an integral part of this statement.

City of Edmonds
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2021

	General Fund	Edmonds Rescue Plan Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 32,979,704	\$ -	\$ 5,658,689	\$ 38,638,393
Licenses and permits	2,453,186	-	99,763	2,552,949
Intergovernmental	1,608,646	1,122,092	3,453,759	6,184,497
Charges for services	5,913,557	-	735,570	6,649,127
Fines and forfeitures	272,302	-	-	272,302
Investment earnings	122,257	-	174,226	296,483
Contributions	150	-	-	150
Miscellaneous	347,519	-	94,101	441,620
Total revenues	43,697,321	1,122,092	10,216,108	55,035,521
EXPENDITURES				
Current:				
General government	12,148,844	1,077,204	-	13,226,048
Public safety	22,765,260	-	-	22,765,260
Utilities and environment	-	-	196,031	196,031
Transportation	2,088	-	3,239,625	3,241,713
Economic environment	1,997,392	-	66,669	2,064,061
Mental and physical health	84,642	-	-	84,642
Culture and recreation	4,357,808	-	486,142	4,843,950
Debt service:				
Principal	54,529	-	498,925	553,454
Interest	46,110	-	254,612	300,722
Capital outlay:				
General government	127,178	-	-	127,178
Public safety	115,913	-	-	115,913
Transportation	-	-	2,237,211	2,237,211
Culture and recreation	25,794	-	5,019,123	5,044,917
Total expenditures	41,725,558	1,077,204	11,998,338	54,801,100
Excess (deficiency) of revenues over expenditures	1,971,763	44,888	(1,782,230)	234,421
OTHER FINANCING SOURCES (USES)				
Bonds issued	4,440,411	-	4,368,285	8,808,696
Payment to escrow for debt refunding	-	-	(2,653,457)	(2,653,457)
Insurance Recoveries	-	-	41,789	41,789
Transfers in	26,300	-	791,616	817,916
Transfers out	(627,870)	-	(189,512)	(817,382)
Total other financing sources (uses)	3,838,841	-	2,358,721	6,197,562
Net change in fund balances	5,810,604	44,888	576,491	6,431,983
Fund balances - beginning	17,432,123	-	17,143,713	34,575,836
Fund balances - ending	\$ 23,242,727	\$ 44,888	\$ 17,720,204	\$ 41,007,819

The notes to financial statements are an integral part of this statement.

CITY OF EDMONDS, WASHINGTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

Net change in fund balances per the Statement of Revenues, Expenditures and Changes in Fund Balance \$ 6,431,983

Amount reported as change in net position in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay is exceeded by depreciation and amortization in the current period.

Capital outlays	\$ 7,736,528	
Current year depreciation	(2,842,481)	
Adjustment in investment in joint venture	<u>(206,049)</u>	
		4,687,999

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Deferred inflows of resources - property taxes	17,105	
PFD Debt Service	(40,666)	
PFD Nonexchange Financial Guarantee	184,770	
Other unearned revenue	45	
LEOFF 2 Pensions	231,169	
Court receivable	<u>(124,756)</u>	
		267,667

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, yet the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.

Amortization of Bond Refunding	19,234	
Bond Issuance	(8,808,697)	
Long-term debt repayments	<u>3,206,912</u>	
		(5,582,551)

Internal service funds are used by management to charge the costs of equipment rental to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities. 333,132

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest Expense	(14,923)	
Loss on Sale of Assets	22,353	
Interest Expense for the PFD	87,000	
Total pension obligation	6,671,141	
Accrued compensating absence expense	<u>(159,479)</u>	
		6,606,092

Change in net position on the Statement of Activities		<u>\$ 12,744,322</u>
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The notes to the financial statements are an integral part of this statement.

City of Edmonds
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Year Ended December 31, 2021

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$31,494,981	\$31,494,981	\$ 32,979,704	\$ 1,484,723
Licenses and permits	2,361,550	2,361,550	2,453,186	91,636
Intergovernmental	1,172,760	1,297,760	1,608,646	310,886
Charges for services	6,021,568	6,021,568	5,913,557	(108,011)
Fines and forfeitures	448,450	448,450	272,302	(176,148)
Investment earnings	171,100	171,100	122,257	(48,843)
Contributions	-	-	150	150
Miscellaneous	394,450	394,450	347,519	(46,931)
Total revenues	<u>42,064,859</u>	<u>42,189,859</u>	<u>43,697,321</u>	<u>1,507,462</u>
EXPENDITURES				
Current:				
General government	12,540,458	13,407,040	12,148,844	1,258,196
Public safety	24,882,604	25,346,871	22,765,260	2,581,611
Transportation	5,000	5,000	2,088	2,912
Economic environment	2,572,948	2,123,110	1,997,392	125,718
Mental and physical health	80,985	80,985	84,642	(3,657)
Culture and recreation	4,553,783	4,799,281	4,357,808	441,473
Total current	<u>44,635,778</u>	<u>45,762,287</u>	<u>41,356,034</u>	<u>4,406,253</u>
Debt service:				
Principal	54,530	54,530	54,529	1
Interest	6,200	24,107	46,110	(22,003)
Total debt service	<u>60,730</u>	<u>78,637</u>	<u>100,639</u>	<u>(22,002)</u>
Capital outlay:				
General government	-	-	127,178	(127,178)
Public safety	23,120	23,120	115,913	(92,793)
Culture and recreation	-	-	25,794	(25,794)
Total capital outlay	<u>23,120</u>	<u>23,120</u>	<u>268,885</u>	<u>(245,765)</u>
Total expenditures	<u>44,719,628</u>	<u>45,864,044</u>	<u>41,725,558</u>	<u>4,138,486</u>
Excess (deficiency) of revenues over expenditures	<u>(2,654,769)</u>	<u>(3,674,185)</u>	<u>1,971,763</u>	<u>5,645,948</u>
OTHER FINANCING SOURCES (USES)				
Issuance of refunding debt	-	4,417,908	4,440,411	22,503
Transfers in	693,548	733,548	26,300	(707,248)
Transfers out	<u>(1,295,128)</u>	<u>(1,295,128)</u>	<u>(627,870)</u>	<u>667,258</u>
Total other financing source (uses)	<u>(601,580)</u>	<u>3,856,328</u>	<u>3,838,841</u>	<u>(17,487)</u>
Net change in fund balances	(3,256,349)	182,143	5,810,604	5,628,461
Fund balances - beginning	<u>16,284,678</u>	<u>17,432,124</u>	<u>17,432,123</u>	<u>(1)</u>
Fund balances - ending	<u>\$13,028,329</u>	<u>\$17,614,267</u>	<u>\$ 23,242,727</u>	<u>\$ 5,628,460</u>

The notes to the financial statements are an integral part of this statement.

City of Edmonds
EDMONDS RESCUE PLAN FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Year Ended December 31, 2021

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental	\$ -	\$ 5,812,870	\$ 1,122,092	\$ (4,690,778)
Total revenues	-	5,812,870	1,122,092	(4,690,778)
EXPENDITURES				
Current:				
General Government	-	5,812,870	1,077,204	4,735,666
Total current	-	5,812,870	1,077,204	4,735,666
Total expenditures	-	5,812,870	1,077,204	4,735,666
Excess (deficiency) of revenues over expenditures	-	-	44,888	44,888
OTHER FINANCING SOURCES (USES)				
Total other financing source (uses)	-	-	-	-
Net change in fund balances	-	-	44,888	44,888
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ 44,888	\$ 44,888

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Net Position
Proprietary Funds
December 31, 2021

	421/422/423 Combined Utility Funds	Governmental Activities Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,285,020	\$ 4,468,612
Investments	3,852,588	1,406,971
Customer accounts	4,326,972	805
Interest on investments	-	31,199
Due from other governments	2,823,261	-
Inventory	177,796	40,718
Total current assets	<u>31,465,637</u>	<u>5,948,305</u>
Noncurrent assets:		
Restricted cash and investment	6,141,947	-
Pension Assets	2,112,733	448,393
Land	1,257,106	-
Property, plant and equipment (net)	96,530,584	4,523,822
Construction in progress	28,578,849	60,845
Intangible assets (net)	46,696	-
Total noncurrent assets	<u>134,667,915</u>	<u>5,033,060</u>
Total assets	<u>166,133,552</u>	<u>10,981,365</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - refunding	17,399	-
Deferred outflows of resources - pension	308,944	55,628
Total deferred outflows of resources	<u>326,343</u>	<u>55,628</u>
Total assets and deferred outflows of resources	<u>166,459,895</u>	<u>11,036,993</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,339,185	84,765
Wages and benefits payable	244,153	41,737
Interfund payables	248,562	-
Due to other governmental units	206,224	-
Other current liabilities	960,819	-
Interest payable	153,299	-
Compensated absences - current	336,326	71,966
Loans payable - current	495,913	-
Revenue bonds payable-current	838,499	-
G.O. bonds payable - current	515,001	-
Total current liabilities	<u>6,337,981</u>	<u>198,468</u>
Noncurrent liabilities:		
Compensated absences - long-term	59,955	45,910
Pension liabilities	211,985	44,990
Loans payable - long-term	2,178,982	-
Revenue bonds payable - long-term	42,054,934	-
G.O. bonds payable - long-term	7,566,898	-
Total noncurrent liabilities	<u>52,072,754</u>	<u>90,900</u>
Total liabilities	<u>58,410,735</u>	<u>289,368</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - refunding	206,370	-
Deferred inflow of resources - pension	2,271,753	460,073
Total deferred inflows of resources	<u>2,478,123</u>	<u>460,073</u>
Total liabilities and deferred inflows of resources	<u>60,888,858</u>	<u>749,441</u>
NET POSITION		
Net investment in capital assets	72,704,847	4,584,667
Restricted for:		
Customer Deposits	8,048	-
Debt Service	3,279,631	-
Pensions	2,112,733	448,393
Unrestricted	27,465,778	5,254,492
Total net position	<u>\$ 105,571,037</u>	<u>\$ 10,287,552</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities 421/422/423 Combined Utility Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Charges for services	\$29,124,487	\$2,473,630
Other operating revenue	(48,636)	78
Total operating revenues	<u>29,075,851</u>	<u>2,473,708</u>
OPERATING EXPENSES		
Personnel services	3,746,545	641,416
Operations and maintenance	12,557,046	976,244
Professional services	642,624	36,373
Insurance	327,276	39,334
Depreciation	3,683,393	617,120
Total operating expenses	<u>20,956,884</u>	<u>2,310,487</u>
Operating income (loss)	<u>8,118,967</u>	<u>163,221</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	54,112	5,749
Investment earnings	139,800	61,270
Judgments and settlements	2,009	451
Gain (loss) on sale of capital assets	(133,321)	102,443
Interest expense	(1,950,503)	-
Total nonoperating revenues (expenses)	<u>(1,887,903)</u>	<u>169,913</u>
Income (loss) before contributions and transfers	6,231,064	333,134
Capital grants and contributions	6,807,778	-
Transfers Out	(534)	-
Change in net position	13,038,308	333,134
Total net position - beginning	92,532,729	9,954,418
Total net position - ending	<u>\$ 105,571,037</u>	<u>\$ 10,287,552</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities 421/422/423 Combined Utility Funds	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 29,243,685	\$ 2,028,565
Payments to employees	(4,613,062)	(381,188)
Payments to suppliers	(14,048,706)	(1,029,639)
Net cash provided (used) by operating activities	<u>10,581,918</u>	<u>617,738</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant income	54,112	-
Proceeds of refunding debt	7,566,899	-
Net cash provided (used) by noncapital financing activities	<u>7,621,011</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Gain from the sale of capital assets	-	115,462
Judgments and settlements	2,009	451
Acquisition and construction of capital assets	(16,381,697)	(468,104)
Capital grants and contributions	6,807,778	5,749
Operations and maintenance	-	-
Principal payments on debt	(9,573,055)	-
Interest payments on debt	(1,720,689)	-
Transfers to other funds	(534)	-
Net cash provided (used) by capital and related financing activities	<u>(20,866,188)</u>	<u>(346,442)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	291,053	69,529
Purchase of investments	4,468,983	764,474
Net cash provided (used) by investing activities	<u>4,760,036</u>	<u>834,003</u>
Net increase (decrease) in cash and cash equivalents	2,096,776	1,105,299
Balances - beginning of year	24,330,190	3,363,313
Balances - end of the year	<u>\$ 26,426,966</u>	<u>\$ 4,468,612</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities <u>421/422/423</u> Combined Utility Funds	Governmental Activities <u>Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating Income	\$ 8,118,967	\$ 163,221
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	3,683,393	617,120
Changes in assets and liabilities:		
Customer Receivables	167,834	(445,143)
Accounts Payable - Supplier	(521,760)	22,312
Payroll Liabilities	(866,517)	260,228
Net cash provided (used) by operating activities	<u>\$ 10,581,918</u>	<u>\$ 617,738</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Fiduciary Net Position
December 31, 2021

	Firemen's Pension Fund	Swat Custodial Fund
ASSETS		
Cash and cash equivalents	\$8,994	\$23,460
Due from other governments	-	7,947
Total assets	<u>8,994</u>	<u>\$31,407</u>
LIABILITIES		
Accounts payable	1,517	-
Accrued expenses	<u>7,477</u>	-
Total liabilities	<u>8,994</u>	-
NET POSITION		
Net position restricted for custodial funds	-	31,407
Total net position	<u>\$ -</u>	<u>\$ 31,407</u>

The notes to financial statements are an integral part of this statement.

City of Edmonds
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2021

	Firemen's Pension Fund	Swat Custodial Fund
ADDITIONS		
Contributions:	-	-
Total contributions	-	-
Intergovernmental	-	67,941
Miscellaneous	-	1,052
Total additions	-	68,993
DEDUCTIONS		
Benefits paid to retirees	86,998	-
Administrative expenses	11,500	-
Miscellaneous	36,617	-
Swat Supplies	-	69,151
Total deductions	135,115	69,151
Change in net position	(135,115)	(158)
Net Position -- beginning of the year	135,115	31,565
Net Position -- end of the year	\$ -	\$ 31,407

The notes to financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Edmonds have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Edmonds was incorporated in 1890 and operates under the laws of the state of Washington applicable to cities. Edmonds operates with a Council/Mayor form of government. Both the Mayor and Council are elected to four-year terms. The City provides a full range of general government services including public safety; streets; parks and recreation; human services, planning and zoning; permits and inspection; general administration; and water, sewer, storm water and wastewater treatment utilities.

As required by Generally Accepted Accounting Principles the financial statements present the City of Edmonds, the primary government, and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Discretely Presented Component Unit

On April 24, 2001 the Edmonds City Council formed the Edmonds Public Facilities District (PFD) via Ordinance 3358, under the authority provided by RCW 35.57. The purpose of the PFD is to construct and operate a regional arts center in the City of Edmonds, defined by RCW 35.57 as a conference, convention or special events center, along with related parking. A five-member board governs the PFD and is appointed to four-year terms by the Edmonds City Council. The PFD has authority under state law to issue debt, levy certain taxes, and enter into contracts.

In 2002 the City issued Limited Tax General Obligation Bonds in the amount of \$7,015,000 for the acquisition, renovation and remodeling of a Performing Arts Center. The City transferred the proceeds of this issuance to the PFD. The City refinanced these bonds in 2012, and in 2021 refinanced the remaining \$2.585 million of these bonds. These bonds are a debt of the City and not the PFD; however, the PFD is obligated by inter-local agreement to pay the entire amount of the PFD's portion of the debt service over the life of the bonds.

For more information on the Edmonds Public Facility District see Note 12, Long-Term Debt. Separate financial statements can be obtained from the Edmonds Center for the Arts, c/o Joe McIlwain, 410 Fourth Avenue N., Edmonds, WA 98020.

Joint Ventures

The City of Edmonds participates in two separate joint ventures:

Snohomish County 911

The City of Edmonds and other Police and Fire entities jointly operate Snohomish County 911. Snohomish County 911, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. Control of Snohomish County 911 is with a 16 member Board of Directors which is specified in the Interlocal Agreement. Snohomish County 911 takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire, and medical aid.

In the event of the dissolution of Snohomish County 911, any money in the possession of Snohomish County 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred shall be returned to the parties to this agreement and shall be apportioned between Principals based on the ratio that the average of each Principals' contributions to the operating budget over the preceding five years bears to the total of all then remaining Principals' User Fees paid during the five year period. Before deducting the payment of all costs, expenses, and charges validly incurred, the City of Edmonds share was \$1,560,928 on December 31, 2021.

Snohomish County 911's 2021 operating budget was \$24,429,390, operating revenues received were \$25,450,056, and total operating expenditures were \$23,395,721. Complete financial statements for Snohomish County 911 can be obtained from their administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

The Alliance for Housing Affordability (AHA)

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

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

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County (HASCO). Fiscal agent duties were transferred to HASCO during fiscal year 2018. The values included in the table below were audited and updated by the new fiscal agent and may be different than what was reported in prior years.

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

Fiscal Year Ending 6/30	AHA's Total Fiscal Year Budget	Edmonds Share of Budget	Edmonds Share as % of Total AHA Budget
2016	\$ 93,652	\$ 2,381	2.5%
2017	\$ 97,934	\$ 3,518	3.6%
2018	\$ 102,586	\$ 3,841	3.7%
2019	\$ 107,391	\$ 4,120	3.8%
2020	\$ 112,408	\$ 4,344	3.9%
2021	\$ 117,673	\$ 4,368	3.7%
2022	\$ 118,200	\$ 4,361	3.7%

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

Budget monitoring information can be obtained from Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett WA 982014 (or email: pfrost@hasco.org) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

B. Basis of Presentation – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported as general revenues.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are charges between the government's water and sewer function and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports two major governmental funds, the *General Fund* and the *Edmonds Rescue Plan Fund*. The General Fund is the City's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. The Edmonds Rescue Plan Fund is a Special Revenue Fund, created to accept and administer federal funds in accordance with the federal CARES Act guidelines and the American Rescue Plan Act (ARPA). The City also reports one major enterprise fund. The *Combined Utility Fund* accounts for all maintenance, construction, and debt service requirements associated with the City's water, sewer, and stormwater systems.

The City has two Internal Service Funds. The *Equipment Rental Fund* accounts for the cost of maintaining the City's vehicle fleet. The *Technology Rental Fund* accounts for the cost of Information Technology equipment repair and replacement.

The City has two Fiduciary Funds. The *Firemen's Pension Fund* is used to account for payment of administrative costs and benefits for retired firefighters who were employed prior to March 1, 1970. This fund was closed at the end of 2021 and its activity was transferred to the General Fund for ensuing years. The *North Sound Metro Special Weapons and Tactics Team (SWAT)* is a Custodial Fund that accounts for the administration and bookkeeping for a regional SWAT team. The City signed an interlocal agreement with surrounding cities in 2013 to form a SWAT team, and the City of Edmonds Police Department was designated as the host Police Department and was responsible for the holding of funds. This fund was closed in early 2022 when the assets and fiduciary responsibilities were transferred to the City of Kirkland.

C. Measurement Focus, Basis of Accounting

Government-Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers most revenues to be available if they are collected within 30 days of the end of the current fiscal period. The City considers property taxes, sales taxes, natural gas taxes and Hotel/Motel excise taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. All other revenue items are considered to be measurable and available only when cash is received.

Proprietary Funds

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Utility Funds are charges to customers for sales and service. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses for enterprise funds include operating and maintenance costs; employee salaries and benefits; contracted services; insurance; and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

Scope of Budget

Annual appropriated budgets are adopted for general fund and special revenue funds on the modified accrual basis of accounting. Budgets for debt service and capital projects funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. Budgets for the General Fund and Special Revenue Funds are adopted at the Fund level. Purely as a management tool, budgets are broken out by department, activity and expense types.

Appropriations for the General and Special Revenue funds lapse at year-end, except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

Amending the Budget

The Mayor is authorized to transfer budgeted amounts between departments or between object classes within any department. Any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of

employment must be approved by the City Council. When the Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund or department, it may do so by ordinance, in accordance with RCW 35A.33.120.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by supplemental appropriations and other legally authorized changes applicable for the fiscal year.

E. Assets, Liabilities, Fund Balance, Net Position

Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. The City considers all highly liquid assets, including investments in the Washington State Local Government Investment Pool, the Snohomish County Investment Pool, and short-term investments with a maturity of three months or less when purchased to be cash equivalents. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds. For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. For more information on investments, see Note 3, *Deposits and Investments*.

Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Note 4, *Property Taxes*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer accounts receivable consist of amounts owed by private individuals and organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered. Receivables are shown net of allowances for uncollectible accounts.

Amounts Due To/From Other Funds and Governments, Interfund Loans and Advances Receivable
Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A separate schedule of interfund loans receivable and payable is furnished in Note 7, *Interfund Activity*.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories

Inventories are assets that are held for internal consumption or resale. The combined utility fund inventories are expensed as consumed, using the first-in, first-out valuation method, which approximates market. Internal service fund inventories are expensed when purchased. A physical inventory is taken at year-end. No inventory is maintained in Governmental Funds.

Restricted Assets

These accounts contain resources for construction and debt service in enterprise funds. Specific debt service reserve requirements are described in Note 12, *Long-Term Debt* and certain cash and investments have been classified as restricted assets on the Statement of Net Position in

accordance with utility bond resolutions, state law, or for other purposes. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost that meets or exceeds \$5,000, and an estimated useful life in excess of one year. Infrastructure assets are capitalized when their cost meets or exceeds \$50,000, and repairs or replacements to components of the Wastewater Treatment Plant are capitalized when their cost meets or exceeds \$100,000.

Costs for additions or improvements to capital assets are capitalized when they increase an asset's value, capacity, or materially extends its useful life. The costs for normal maintenance and repairs are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Land, permanent artwork, and construction in progress are not depreciated. Buildings, equipment, non-building improvements and intangible assets are depreciated using the straight-line method using varying estimated service lives for individual assets and asset classifications, depending on particular characteristics of an asset and factors surrounding its anticipated use. See Note 9 for additional information regarding capital assets.

The average service lives used to calculate depreciation for specific categories of assets are summarized below:

<u>Asset Type</u>	<u>Est. Service Life (Years)</u>
Buildings	30–50
Improvements other than Buildings	20–40
Furniture and fixtures	5-10
Cars	5-10
Vans, Trucks, Trailers	5-20
Data Processing Equipment	3-10
Infrastructure	20–100
Sidewalks	30
Machinery and Equipment	5–20
Intangible Assets	20–30

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (as either an expense or expenditure) until that period. The City has two items that qualify for reporting in this category: 1) deferred gains on refunding and 2) pensions. Deferred gains on refunding reported in the statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions and affects both assets and liabilities. The City's fiscal year ends on December 31, while the State's fiscal year ends on June 30. This causes the recognition periods for pension contributions to not match, resulting in the recognition of Deferred Outflows and Deferred Inflows to account for the City's pension contributions.

In addition to liabilities, the Statement of Net Position and the Governmental Fund Balance Sheet will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that period. The City has four items that qualify for reporting in this category: 1) unavailable property taxes recorded as receivables, 2) unavailable court fees recorded

as a receivable, 3) deferred losses on refunding, and 4) pensions and other post-employment obligations, as explained above.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave, and holiday earned by police employees, according to the terms of union contracts or per RCW. Also included is compensatory time earned in lieu of overtime. All such compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements, and are payable upon termination, retirement or death. Compensated absences including payroll taxes are reported as a current liability on the balance sheet. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is estimated using the termination method provided by GASB Statement No. 16.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For purposes of calculating the restricted net position related to the net pension asset, the City includes the net pension asset only.

Other Accrued Liabilities

Employees earn vacation pay based on their years of service, and may carry over accruals of up to two years' accumulated leave from one year to the next. Unused vacation leave at time of termination, retirement or death is considered vested and payable to the employee. Unused sick leave is paid out upon termination, retirement or death based on a percentage of the employee's accumulated sick leave, in accordance with the terms of their union contract, or in accordance with Edmonds City Code Chapter 2.35.

Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

Fund Balance Classification

The difference between fund Assets and Deferred Outflows of Resources, minus its Liabilities and Deferred Inflows of Resources, is referred to as Net Position on the government-wide, proprietary, and fiduciary fund statements, and as Fund Balance on the governmental fund statements. The fund balance amounts for governmental funds are classified in accordance with GASB Statement No. 54, and are reported as non-spendable, restricted, committed, assigned, or unassigned.

- *Non-spendable* fund balance represents amounts that are either not in a spendable form (e.g. inventories or prepaid balances) or are legally or contractually required to remain intact.
- *Restricted* fund balances include amounts that have constraints placed upon their use by constitution, external resource providers, or through enabling legislation.
- *Committed* fund balances include amounts that are limited by resolution of the City Council. A resolution must be taken to impose limitations on the use of these resources, and another resolution is required to modify or eliminate those limitations.
- *Assigned* fund balances include amounts that are intended by the Mayor or department Directors for an intended use, but are neither restricted nor committed. This type of

limitation can be imposed by the highest levels of decision making within the City, but little or no formal action is required to modify or eliminate those limitations.

- *Unassigned* fund balance is the residual amount of the general fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted fund balances are available for use, the City considers restricted fund balance to have been spent first. When committed, assigned, or unassigned fund balance amounts are available for use, the City considers committed fund balance to be spent first, assigned fund balance second, and unassigned fund balance last.

F. Revenues, Expenditures and Expenses

The *modified accrual basis* of accounting is followed in all governmental funds of the City. Under the modified accrual basis of accounting, charges for services, interest on investments, and rents generally are considered measurable and available when earned in governmental funds. Taxes and federal or state entitlements or shared revenues that have been collected but not remitted by an intermediary collection agency to the City are considered measurable and available. Grants are considered measurable and available to the extent that expenditures have been incurred. Other intergovernmental revenues are considered measurable and available when earned. Interfund revenues for goods and services are considered measurable and available when earned. Proceeds from the disposal of capital assets are recognized as other financing sources. Revenues from taxpayer-assessed taxes (e.g. sales tax), net of estimated refunds, are recognized when measurable and available to finance expenditures of the current period. All other revenues are either not measurable or considered not available until collected. Expenditures are generally recognized when incurred, except for principal and interest on general long-term debt, which are reported as expenditures when paid, and compensated absences, which are reported as expenditures when liquidated from expendable available financial resources.

The *accrual basis of accounting* is followed in all proprietary and fiduciary funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Contributions of capital in proprietary fund financial statements arise from internal and external contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction. Transfers between government and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated, as are transfers between funds reported in the business-type activities column.

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – ACCOUNTING AND REPORTING CHANGES

Reporting Changes – Effective for fiscal year 2021 reporting, the City adopted the following new Standard issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 92, Omnibus 2020 – the objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments are presented in the financial statements at fair value based on quoted market prices. The City's position in the State and County Local Government Investment Pools is the same as the value of the pool shares. Pool investments are reported as Cash and Cash Equivalents. Interest earned on the pooled investments is allocated to individual funds based on that fund's cash balance at the end of each month. The City holds most investments to maturity. Interest earnings are recognized in the period in which they become available and measurable. Cash and equity in pooled investments are comprised of both government-type and business-type activities. The balances are comprised of the following:

	December 31, 2021
Deposits with US Bank	\$ 3,423,152
Petty Cash/Change Funds	4,500
Local Government Investment Pool	19,272,242
Snohomish County Investment Pool	42,435,782
Certificates of Deposit	4,803,516
Municipal Securities	7,622,172
Federal Agency Securities	4,007,336
	<u>\$ 81,568,700</u>

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy manages the exposure to declines in fair values by limiting the average of maturity of its portfolio to no more than three and one half years, unless an investment is matched to an anticipated future cash flow.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Remaining Maturity in Months	Fair Value	Twelve Months or Less	Twelve Months to Two Years	Two Years to Three Years	Three Years to Seven Years	Credit Rating
Federal Agency Securities	\$ 4,007,336	\$ 2,015,958	\$ 1,991,378		\$ -	Aaa/AA+
Municipal Securities	7,622,172	4,986,788	2,375,873	259,512		Aaa/AA+
Certificates of Deposit	4,803,516	-	2,803,516	-	2,000,000	Not Rated
Local Government Investment Pool	19,272,242	19,272,242	-	-	-	Not Rated
Snohomish County Investment Pool	42,435,782	42,435,782	-	-	-	Not Rated
	<u>\$ 78,141,048</u>	<u>\$ 68,710,770</u>	<u>\$ 7,170,767</u>	<u>\$ 259,512</u>	<u>\$ 2,000,000</u>	

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy limits the instruments in which the City may invest. The City is empowered to invest in the following types of securities:

- U.S. Government obligations, U.S. Government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;
- U.S. Treasury securities maturing in less than ten years;
- Fully insured or collateralized certificates of deposit, and other evidences of deposit, at qualified financial institutions that are approved by the Washington Public Deposit Protection Commission;
- Banker's Acceptances, and commercial paper rated in the highest tier by a nationally recognized rating agency;
- Investment grade obligations of state and local governments and public authorities located within the State of Washington; and

- Local government investment pools, either state administered or through joint powers statutes and other intergovernmental agreement legislation.

The Washington State Local Government Investment Pool (LGIP), created by the Washington State Legislature in 1986, is managed and operated solely by the Office of the State Treasurer. The State Finance Committee administers the statute that created the pool and adopts appropriate rules. The State Treasurer established the LGIP Advisory Committee to provide advice on the pool's operation. The advisory committee includes 12 members selected from the active pool participants. Eight members are appointed by the participant associations, and four are appointed by the State Treasurer.

The LGIP is considered extremely low risk and is recorded as a cash equivalent. The pool is unrated by financial rating agencies. Investments are reported at their amortized cost basis to pool participants, which approximates fair value. The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting.

The Snohomish County Investment Pool (SCIP) is not registered with the SEC. Investments are reported at fair value to the participants. It includes participating funds from the County's primary government and funds from the districts where the County Treasurer serves as *ex-officio* Treasurer. There are no involuntary participants in the SCIP. All participants have notified the Treasurer of their desire to participate in the SCIP. The portion of the pool belonging to outside districts is reported in an Investment Trust Fund. SCIP investments are those allowed by County Investment Policy and include savings accounts, CD's and securities.

Pool participant shares are based on the dollars that they have invested in SCIP. The income is distributed based on interest rates on investments, amortization of premiums and discounts, and realized gains and losses for the month.

Pool oversight comes from the Snohomish County Finance Committee (SCFC). The SCFC consists of the County Treasurer, County Executive and Chairperson of the County Council. SCFC approves investment policies for SCIP.

Fair value of securities is based on the market value reports provided by the County's custodial agent. The market values are uploaded into the County investment software monthly from the custodial agent. The fair value of each participant's investment is determined by calculating the ratio of total investments by pool participants divided into the total fair value of the SCIP underlying assets.

Custodial Credit Risk - Deposits. Custodial Credit Risk for Deposits is the risk that in the event of a bank failure, the City may not be able to recover deposits or collateral securities that are in the possession of an outside party. All City deposits are insured by Federal Depository Insurance (FDIC) up to \$250,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC constitutes a multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution's public deposits. The WPDPC may make pro-rata assessments to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

Custodial Credit Risk – Investments. Custodial Credit Risk for Investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All City securities are held for safekeeping by U.S. Bank, as the City's agent, in the City's name.

Concentration of Credit Risk. Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City diversifies its investments by security type and institution. The investment policy requires that no more than 50 percent of the City's portfolio,

at the time of purchase, shall be in any single financial institution, with the exception of investments in the LGIP, the SCIP, or U.S. Treasury or Agency securities.

The City measures and reports investments at fair value using the valuation input hierarchy established by Generally Accepted Accounting Principles. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. The guidance requires three levels of fair value measurement based on the respective inputs.

Level 1: Prices quoted in active markets for identical securities.

Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.

Level 3: Unobservable inputs for an asset or liability.

U.S. Agency securities and municipal bonds classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 1 or Level 3 security classifications to report.

The following table presents recurring fair value measurements as of December 31, 2021:

Fair Value Measurement Using				
Investment Type	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Federal Agency Securities	\$ -	\$ 4,007,336	\$ -	\$ 4,007,336
Municipal Securities	-	7,622,172	-	7,622,172
Snohomish Co. Investment Pool	-	42,435,782	-	42,435,782
WA State LGIP	-	19,272,242	-	19,272,242
Certificate of Deposit	-	4,803,516	-	4,803,516
Total	\$ -	\$ 78,141,048	\$ -	\$ 78,141,048

The following table identifies the types of investments, concentration of investments in any one issuer, and maturities of the City's investment portfolio at December 31, 2021:

Maturities				
Investment Type	Fair Value	Less Than 1 Year	1 to 7 Years	% of Total Portfolio
Federal Agency Securities	\$ 4,007,336	\$ 2,015,958	\$ 1,991,378	5.13%
Municipal Securities	7,622,172	4,986,788	2,635,384	9.75%
Snohomish County Pool	42,435,782	42,435,782	-	54.31%
Certificates of Deposit	4,803,516	-	4,803,516	6.15%
Subtotal	58,868,806	49,438,528	9,430,278	75.34%
WA State LGIP *	19,272,242	19,272,242	-	24.66%
Total	\$ 78,141,048	\$ 68,710,770	\$ 9,430,278	100.00%
Percentage of Total Portfolio		87.93%	12.07%	100.00%

Discretely Presented Component Unit: Cash and equity in pooled investments of the Edmonds Public Facilities District are comprised of governmental type activities only. The balances as of December 31, 2021 are as follows:

Component Unit	
	December 31, 2021
Cash and Cash Equivalents	\$ 1,045,333
Restricted Cash and Cash Equivalents	378,815
	<u>\$ 1,424,148</u>

The following tables present information regarding the components of Cash and Cash Equivalents as of December 31, 2021:

Financial Statements

	Governmental Activities	Business-type Activities	Total Primary Govt.	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 32,348,402	\$ 20,285,020	\$ 52,633,422	\$ 32,454	\$ 52,665,877
Restricted Cash and Cash Equivalents	11,131,368	6,141,947	17,273,315	-	17,273,315
Investments	7,776,920	3,852,588	11,629,508	-	11,629,508
	<u>\$ 51,256,690</u>	<u>\$ 30,279,555</u>	<u>\$ 81,536,246</u>	<u>\$ 32,454</u>	<u>\$ 81,568,700</u>

Restricted Cash and Cash Equivalents

	Governmental Activities	Business-type Activities	Total
Deposit to Bond Reserve Account	\$ -	\$ 3,279,631	\$ 3,279,631
First Financial CD -Waterfront Center	2,000,000	-	2,000,000
First Financial CD - PFD Collateral	2,803,516	-	2,803,516
Unspent Construction Debt Proceeds	6,327,852	2,862,316	9,190,168
	<u>\$ 11,131,368</u>	<u>\$ 6,141,947</u>	<u>\$ 17,273,315</u>

NOTE 4 – PROPERTY TAXES

The Snohomish County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as deferred inflow and recognized as revenue in the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The City may levy up to \$3.10 per \$1,000 of assessed valuation for general governmental services. This rate is limited by the Washington State Constitution and RCW 84.55.010.

The City's regular levy for 2021 was \$0.90623091841 per \$1,000 on an assessed valuation of \$11,648,792,913 for a total regular levy of \$10,556,496. City of Edmonds voters have approved one special levy, for Emergency Medical Services (EMS). The City's EMS Levy for 2021 was \$0.35746317675 per \$1,000 on an assessed valuation of \$11,648,792,913 for a total EMS levy of \$4,164,015.

Property Tax Calendar

January 1	Tax is levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

NOTE 5 – RECEIVABLES AND PAYABLES

Receivables at December 31, 2021 are as follows:

	Customer Accounts	Taxes	Due From Other Governments	Due from Component Units	Total
Governmental Activities					
General Fund	\$ 629,542	\$ 251,770	\$ 2,415,182	\$ 3,846,887	\$ 7,143,381
Other Governmental Funds	-	-	1,717,715	-	1,717,715
Internal Service	805	-	0	-	805
Total Governmental Activities	\$ 630,347	\$ 251,770	\$ 4,132,897	\$ 3,846,887	\$ 8,861,902
Business-type Activities					
Combined Utility Fund	\$ 4,326,972	\$ -	\$ 2,823,261	\$ -	\$ 7,150,233
Total Business-type Activities	\$ 4,326,972	\$ -	\$ 2,823,261	\$ -	\$ 7,150,233

Payables at December 31, 2021 are as follows:

	Salaries and Benefits	Accounts Payable	Due to Other Governments	Other Current Liabilities	Total
Governmental Activities					
General Fund	\$ 1,167,565	\$ 741,676	\$ -	\$ 146,840	\$ 2,056,081
Other Governmental Funds	86,447	2,873,103	-	39,578	2,999,128
Internal Service	41,737	84,765	-	-	126,501
Total Governmental Activities	\$ 1,295,749	\$ 3,699,544	\$ -	\$ 186,418	\$ 5,181,711
Business-type Activities					
Combined Utility Fund	\$ 244,153	\$ 2,339,185	\$ 206,224	\$ 960,819	\$ 3,750,381
Total Business-type Activities	\$ 244,153	\$ 2,339,185	\$ 206,224	\$ 960,819	\$ 3,750,381

NOTE 6 – DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Deferred Outflows of Resources at December 31, 2021, are as follows:

Deferred Outflows of Resources - Government-wide Statement of Net Position	Governmental Activities	Business-Type Activities
Difference between the reacquisition price and the net carrying amount of old debt in current refundings when the reacquisition price is greater.	\$ 30,788	\$ 17,399
GASB 68 Pension Deferred Outflow	2,386,820	308,944
Total	\$ 2,417,608	\$ 326,343

Deferred Inflows of Resources at December 31, 2021 are as follows:

Deferred Inflows of Resources - Government-wide Statement of Net Position	Governmental Activities	Business-Type Activities
Difference between the reacquisition price and the net carrying amount of old debt in current refundings when the reacquisition price is less.	\$ 54,219	\$ 206,370
GASB 68 Pension Deferred Inflow	16,824,073	2,271,753
Total	\$ 16,878,292	\$ 2,478,123

Deferred Inflows of Resources - Governmental Funds Balance Sheet	General Fund	Enterprise Funds
The portion of property taxes not received within 60 days of 2021	\$ 214,751	\$ -
The portion of court receivables not received within 60 days of 2021	209,192	-
Total	\$ 423,943	\$ -

NOTE 7 – INTERFUND ACTIVITY

There was one interfund balance as of December 31, 2021 for a utility tax payable to the General Fund in the amount of \$248,562.

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. The City uses transfers to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Routine transfers include contributions to the pension funds, transfers for debt service requirements, transfers from unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, transfers for the 1% percent for the arts program, and transfers when the City closes out activity in a fund.

Interfund activity for the year is as follows:

	Transfers In	Transfers Out			Total
		General	Other Governmental	Enterprise	
General Fund	\$ 26,300	\$ -	\$ 627,870	\$ -	\$ 627,870
Other Governmental	791,616	26,300	163,212	-	189,512
Enterprise	-	-	534	-	534
Total	\$ 817,916	\$ 26,300	\$ 791,616	\$ -	\$ 817,916

NOTE 8 – RESTRICTED, COMMITTED AND ASSIGNED COMPONENTS

The government-wide statement of net position reports \$35,884,276 for Governmental Activities and \$5,400,412 for Business-Type Activities as restricted components of net position. The fund statements report \$2,967,931 as committed and \$2,000,000 as assigned components of fund balance.

Governmental Activities Restricted for:	
Per RCW, proceeds from seizures are limited to law enforcement activities exclusively	75,174
Restricted per RCW related to state fuel taxes, transportation benefit fees, impact fees and grant agreements	3,189,614
Restricted per RCW related to REET revenue and lodging tax restrictions, private donors, and grant agreements	10,133,107
Per RCW, proceeds are limited to paying the cost of tourism promotion and the Edmonds Business Improvement District	100,246
Restricted per the Federal American Rescue Plan Act (ARPA)	44,888
Per RCW, 60% of the proceeds are limited to the construction of affordable housing, construction of mental and behavioral health-related facilities and facilities where housing related programs are provided. The remaining proceeds must be used for the operation, delivery or evaluation of mental and behavioral health treatment programs and services or housing -related services	159,414
Restricted by grant agreements and private donations limited to a specific purpose	15,480
Restricted for Net Pension Assets	22,166,353
Total Restricted Components of Net Position	35,884,276
Business-Type Activities Restricted for:	
Customer deposits	8,048
Debt service restrictions	3,279,631
Restricted for Net Pension Assets	2,112,733
Total Restricted Components of Net Position	5,400,412
Governmental Activities Committed for:	
Committed for the cost of operating and restoring the Edmonds Marsh	848,616
Committed for the acquisition or advancement of visual and performing arts within the City	648,879
Committed for the administration of the employee permit parking program solely and exclusively	76,524
Committed for special projects, special events, capital improvements and other nonrecurring needs of cemetery	266,205
Committed to be expended solely for the purpose of maintaining the cemetery	1,107,074
Committed to be expended solely for the purpose of evaluation, protection, enhancement, preservation, replacement and proper maintenance of significant trees within the City of Edmonds in alignment with the tree ordinance.	20,632
Total Committed Components of Fund Balance	2,967,931
Governmental Activities Assigned for:	
Assigned for Civic Park	2,000,000
Total Assigned Components of Fund Balance	2,000,000

NOTE 9 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2021 is as follows:

	Balance 1/1/2021	Increases	Decreases	Balance 12/31/2021
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 17,688,372	\$ 436,340	\$ (114,780)	\$ 18,009,932
Construction in progress	7,836,481	7,233,895	(5,643,357)	9,427,019
Total capital assets not being depreciated:	25,524,853	7,670,235	(5,758,137)	27,436,951
Capital assets, being depreciated:				
Building	24,917,754	481,000	(279,232)	25,119,523
Improvements other than buildings	24,441,804	5,511,511	(370,912)	29,582,403
Infrastructure	65,186,618	17,333	-	65,203,951
Machinery and equipment	10,562,344	633,823	(544,770)	10,651,397
Total capital assets being depreciated:	125,108,520	6,643,667	(1,194,913)	130,557,274
Less accumulated depreciation for:				
Buildings	(17,634,875)	(533,693)	224,409	(17,944,158)
Improvements other than buildings	(10,209,586)	(954,931)	203,501	(10,961,016)
Infrastructure	(38,546,367)	(1,389,126)	-	(39,935,493)
Machinery and equipment	(5,449,543)	(674,282)	517,635	(5,606,190)
Total accumulated depreciation:	(71,840,371)	(3,552,032)	945,545	(74,446,858)
Total capital assets being depreciated, net:	53,268,149	3,091,635	(249,368)	56,110,416
Governmental activities capital assets, net:	\$ 78,793,002	\$ 10,761,870	\$ (6,007,505)	\$ 83,547,367
	Balance 1/1/2021	Increases	Decreases	Balance 12/31/2021
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 1,257,107	\$ -	\$ -	\$ 1,257,107
Construction in progress	18,295,083	13,847,988	(3,564,223)	28,578,848
Total capital assets, not being depreciated:	19,552,190	13,847,988	(3,564,223)	29,835,955
Capital assets being depreciated:				
Building	35,438,728	-	-	35,438,728
Improvements other than buildings	114,860,460	6,097,933	(873,757)	120,084,635
Machinery and equipment	1,061,712	-	(15,220)	1,046,492
Intangible assets	1,296,697	-	-	1,296,697
Total capital assets being depreciated:	152,657,597	6,097,933	(888,977)	157,866,553
Less accumulated depreciation for:				
Buildings	(19,978,897)	(680,296)	-	(20,659,193)
Improvements other than buildings	(36,544,762)	(2,943,243)	715,689	(38,772,315)
Machinery and equipment	(570,096)	(52,890)	15,220	(607,765)
Intangible assets	(1,267,784)	-	17,784	(1,250,000)
Total accumulated depreciation:	(58,361,538)	(3,676,429)	748,694	(61,289,274)
Total capital assets being depreciated, net:	94,296,059	2,421,504	(140,284)	96,577,280
Business activities capital assets, net:	\$ 113,848,250	\$ 16,269,492	\$ (3,704,507)	\$ 126,413,235

The difference of \$123,753 between the 2020 Ending Balance and the 2021 Beginning Balance for accumulated depreciation in the Business-type Activities is due to a miscalculation for a utility asset where the financial system did not calculate depreciation correctly.

Depreciation Expense by Function

Governmental Activities:

General government	\$ 473,958
Public safety	304,717
Culture and recreation	768,570
Transportation	1,397,209
Physical Environment	4,575
Internal service	603,004
Total depreciation expense - Governmental Activities	<u>\$ 3,552,032</u>

Business-Type Activities:

Stormwater	\$ 590,778
Water	880,709
Sewer	850,035
Wastewater Treatment	1,354,907
Total depreciation expense - Business Type Activities	<u>\$ 3,676,429</u>

NOTE 10 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2021:

	State Sponsored Plans	Single Employer Plan	Total
Pension Liabilities	\$ (1,198,678)	\$ (555,194)	\$ (1,753,872)
Pension Assets	\$ 24,279,086	\$ -	\$ 24,279,086
Deferred Outflows of Resources	\$ 2,693,835	\$ 1,929	\$ 2,695,764
Deferred Inflows of Resources	\$ (19,095,826)	\$ -	\$ (19,095,826)
Pension Expense/Expenditures	\$ (4,499,621)	\$ 61,633	\$ (4,437,988)

State Sponsored Pension Plans

Substantially all of the City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The DRS, a department within the primary government of the State of Washington, issues a publicly available Annual Comprehensive Financial Report that includes financial statements and required supplementary information for each plan. The DRS Report may be obtained by writing to Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98540, or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 – provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost of living adjustment, and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions – The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
2021		
January through June		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%
July through December		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	10.25%	6.00%

The City's actual contributions to the plan were \$653,722 for the year ended December 31, 2021.

PERS Plan 2/3 – provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance based on the CPI capped at 3% annually, and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 – defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions – The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution

rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
2021			
January through August			
PERS Plan 2/3	7.92%	7.90%	Varies
PERS Plan 1 UAAL	4.87%		
Administrative Fee	0.18%		
Total	12.97%	7.90%	Varies
September through December			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.71%		
Administrative Fee	0.18%		
Total	10.25%	6.36%	Varies

The City's actual contributions to the plan were \$1,035,366 for the year ended December 31, 2021.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per years of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10 – 19 years of service – 1.5% of FAS
- 5 – 9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. Members are eligible for retirement with 5 years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions – Starting on July 1, 2000 **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2021. Employers paid only the administrative expense of 0.18% of covered payroll.

LEOFF Plan 2 – provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at age 53, with at least 5 years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3% for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance based on

the CPI, capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of 5 years of eligible service.

Contributions – The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18%. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and State contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2021. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

LEOFF Plan 2 Actual Contribution Rates	Employer	Employee
2021		
January through December		
LEOFF Plan 2	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%

The City's actual contributions to the plan were \$339,281 for the year ended December 31, 2021.

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. For the state fiscal year ending June 30, 2021 the state contributed \$78,170,320 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$231,169.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021, with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to

project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in assumptions between the 2021 and 2020 valuations. There were changes in methods between the 2021 and 2020 valuations.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Percent Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
Total	100.00%	

Sensitivity of the NPL

The table below presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.4%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

2021	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 2,042,105	\$ 1,198,678	\$ 463,201
PERS 2/3	\$ (3,403,343)	\$ (11,946,559)	\$ (18,981,902)
LEOFF 1	\$ (1,702,689)	\$ (1,891,321)	\$ (2,054,520)
LEOFF 2	\$ (6,584,231)	\$ (10,441,205)	\$ (13,599,297)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets)

At December 31, 2021, the City reported a net pension liability of \$1,198,678 and a net pension asset of (\$24,279,086) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2021):

2021	Liability (Asset)
PERS 1	\$ 1,198,678
PERS 2/3	\$ (11,946,559)
Total	\$ (10,747,881)
LEOFF 1	\$ (1,891,321)
LEOFF 2	\$ (10,441,205)
Total	\$ (12,332,526)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
Employer's Proportionate Share	\$ (1,891,321)	\$ (10,441,205)
State's Proportionate Share of the Net Pension Asset Associated with the Employer	\$ (12,792,850)	\$ (6,735,717)
Total	\$ (14,684,171)	\$ (17,176,922)

The City's proportionate share of the collective net pension assets, deferred outflows, liabilities, and deferred inflows was as follows:

	Proportionate Share 6/30/2020	Proportionate Share 6/30/2021	Change in Proportion
PERS 1	0.097758%	0.098153%	0.000395%
PERS 2/3	0.120113%	0.119926%	-0.000187%
LEOFF 1	0.055457%	0.055212%	-0.000245%
LEOFF 2	0.176926%	0.179760%	0.002834%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2020. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). The state of Washington contributed 87.12% of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88% of employer contributions. LEOFF 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. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2021, the state of Washington contributed 39% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61% of employer contributions.

Pension Expense

For the year ended December 31, 2021, the City recognized pension expense as follows:

	2021
PERS 1	\$ (208,863)
PERS 2/3	\$ (2,728,204)
LEOFF 1	\$ (277,051)
LEOFF 2	\$ (1,285,504)
Total	\$ (4,499,622)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (1,330,131)
Changes of Assumptions	\$ -	\$ -
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ -	\$ -
Contributions Subsequent to the Measurement Date	\$ 281,026	\$ -
Total PERS 1	\$ 281,026	\$ (1,330,131)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 580,227	\$ (146,453)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (9,984,521)
Changes of Assumptions	\$ 17,458	\$ (848,403)
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ 350,622	\$ (430,401)
Contributions Subsequent to the Measurement Date	\$ 459,321	\$ -
Total PERS 2/3	\$ 1,407,628	\$ (11,409,778)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (577,915)
Changes of Assumptions	\$ -	\$ -
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ -	\$ -
Contributions Subsequent to the Measurement Date	\$ -	\$ -
Total LEOFF 1	\$ -	\$ (577,915)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 473,573	\$ (55,181)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (4,978,442)
Changes of Assumptions	\$ 4,513	\$ (496,584)
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ 351,667	\$ (247,793)
Contributions Subsequent to the Measurement Date	\$ 175,428	\$ -
Total LEOFF 2	\$ 1,005,181	\$ (5,778,000)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,053,800	\$ (201,634)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ -	\$ (16,871,009)
Changes of Assumptions	\$ 21,971	\$ (1,344,987)
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	\$ 702,289	\$ (678,194)
Contributions Subsequent to the Measurement Date	\$ 915,775	\$ -
Total All Plans	\$ 2,693,835	\$ (19,095,824)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	PERS 1	PERS 2/3
2022	\$ (352,352)	\$ (2,750,111)
2023	\$ (322,883)	\$ (2,570,722)
2024	\$ (305,299)	\$ (2,507,192)
2025	\$ (349,597)	\$ (2,614,047)
2026	\$ -	\$ (26,852)
Thereafter	\$ -	\$ 7,451
Total	\$ (1,330,131)	\$ (10,461,473)
	LEOFF 1	LEOFF 2
2022	\$ (153,515)	\$ (1,319,671)
2023	\$ (140,418)	\$ (1,229,120)
2024	\$ (132,497)	\$ (1,160,704)
2025	\$ (151,485)	\$ (1,308,037)
2026	\$ -	\$ (9,773)
Thereafter	\$ -	\$ 79,059
Total	\$ (577,915)	\$ (4,948,246)

Firemen's Pension Fund

Plan Description

The Law Enforcement Officers' and Firefighters' (LEOFF) pension system was established by the State of Washington on March 1, 1970. The City retained the responsibility for all benefits payable to members (or to their survivors) who retired prior to that date. In addition, the City retained the responsibility for a portion of the benefits payable to members who were active on that date.

As a result, the City of Edmonds is the administrator of the Firemen's Pension Plan which is shown as a Trust Fund in the City's financial reports. Separate financial statements are not issued. This system is a closed, single-employer, defined benefit pension system. City firefighters who served before March 1, 1970 are participants of this pension fund. Benefits are established in accordance with RCW 41.18 and RCW 41.20.

Employees Covered by Benefit Terms

During 2021 there were a total of 4 retirees covered under this system who are receiving pension benefits; of these 4 retirees, 3 are also receiving medical benefits from this fund. There were no active employees covered under this plan, and there were no inactive employees entitled to but not yet receiving benefits. The pension plan is closed to new entrants.

Funding Policy and Contributions

Under State law, the Firemen's Pension Fund is provided an allocation of 25% of all money received by the State from taxes on fire insurance premiums. The General Fund may provide additional funding through transfers to help fund benefits and administrative costs as necessary. Active pension plan members are not required to contribute to the plan.

The financial activity of the Firemen's Pension Fund is presented in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. No separate stand-alone financial report is issued for the Firemen's Pension Fund. Although the City administers the pension plan, it is partially funded by a percentage of the tax on fire insurance premiums. The state contributes 25% of taxes on fire insurance premiums to this plan and is considered a non-employer contributing entity. The amount of contributions received for the year ended December 31, 2021 was \$53,334.

Milliman, Inc., actuaries and consultants, provided the Firemen's Pension Fund Actuarial Valuation for the year ended December 31, 2021. The Net Pension Liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of January 1, 2021. The Firemen's Pension Fund did not hold any investments. The net pension liability has been recorded as a noncurrent liability on the City's Government-wide Statement of Net Position. Significant actuarial assumptions used in the valuation include:

Actuarial Cost Method	Entry Age
Actuarial Asset Method	Market Value
Assumptions:	
Investment Return Assumption (Discount Rate)*	2.00%
Salary Increases	3.00%
Inflation related to Consumer Price Index	2.25%
Mortality – Service-retired members and spouses	Pub-2010 Safety Mortality Table (headcount-weighted) with ages set back one year for males is used for healthy annuitants.
Mortality – Disabled members	Pub-2010 Safety Disabled Mortality Table is used for disabled annuitants.
Mortality – Surviving Spouses	A blend of rates from Pub-2010 Mortality Tables for contingent annuitants and retirees is used for surviving spouses.

*Discount rate is based on The Bond Buyer General Obligation 20-bond municipal index for bonds that mature in 20 years.

There were changes in methods and assumptions since the last actuarial valuation (January 1, 2021).

- Mortality assumptions changed from RP-2000 mortality tables to those listed above

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2020	\$ 627,613	\$ 135,116	\$ 492,497
Changes for the Year:			
Service Cost	-	-	-
Interest	11,898	-	11,898
Changes in Benefits Provided	26,732	-	26,732
Changes in Actuarial Assumptions or Inputs	44,613	-	44,613
Differences Between Expected and Actual Experience	-	-	-
Contributions - Employer	-	-	-
Net Investment Income	-	-	-
Contributions from state fire insurance premium tax	-	53,334	(53,334)
Benefit Payments and Withdrawals	(65,711)	(65,711)	-
Medical Payments from Fund	-	(21,288)	21,288
Administrative Expenses	-	(11,500)	11,500
Other	-	-	-
Balances at December 31, 2021	<u>\$ 645,145</u>	<u>\$ 89,951</u>	<u>\$ 555,194</u>

Net Plan Fiduciary Net Position

	2021	2020
Total Pension Liability	\$ 645,145	\$ 627,613
Pension Plans Fiduciary Net Position	<u>89,951</u>	<u>135,116</u>
Net Pension Liability	<u>\$ 555,194</u>	<u>\$ 492,497</u>
Plan Fiduciary Net Position as a % of the Total Pension Liability	13.94%	21.53%

Sensitivity of Net Pension Liability

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 2.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease	Current Rate 2%	1% Increase
Net Pension Liability	\$ 601,980	\$ 555,194	\$ 513,647

Pension Expense

For the year ended December 31, 2021 the City recognized pension expense related to the Firemen's pension plan as follows:

Service Cost	\$	-
Interest Cost		11,898
Expected Investment Earnings		(2,253)
Administrative Expense		11,500
Medical Payments		21,288
Contributions from state fire insurance premium tax		(53,334)
Amortization of Deferred Inflows and Outflows		72,534
Changes in Benefits Provided		-
	<u>\$</u>	<u>61,633</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021 the City reported deferred outflows of resources and deferred inflows of resources related to the Firemen's pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Actuarial Difference Between Projected and Actual		-
Investment Earnings on Pension Plan Investments	1,929	-
Changes of Assumptions	-	-
Total	<u>\$ 1,929</u>	<u>\$ -</u>

Deferred Outflows of resources related to the Firemen's Pension Plan and Deferred Inflows of Resources related to the Firemen's Pension Plan will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2022	\$ 574
2023	510
2024	396
2025	449
2026	-
Thereafter	-
Total	<u>\$ 1,929</u>

Municipal Employees Benefits Trust (MEBT)

By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to 2 U.S.C.A., Sec. 418 (g) effective July 1, 1977. City employees who customarily work

1,000 or more hours per year and who otherwise would be eligible for Social Security coverage and benefits are required to participate. Both the City and participants are required to contribute an amount equal to the current Federal Insurance Contributions Act (FICA) tax rate. The City's contribution for fiscal year 2021 was \$1,261,226 which represents its full liability.

For the year ending December 31, 2021 the City's covered payroll was \$22,312,784. No significant benefit changes occurred in 2021. The plan is administered by a Plan Committee consisting of two members appointed by the Mayor and five members elected by the employees who contribute to the plan. Members appointed by the Mayor serve at the pleasure of the Mayor; elected members serve a two-year term and may be re-elected for an additional two-year term.

Plan assets are not City property, but are maintained in trust at American Stock Transfer and Trust Company. Plan assets, therefore, are not included in these financial statements.

The City may amend the provisions of the plan, provided that no such amendment shall enlarge the duties or the liabilities of the plan trustee without its consent.

The City has the right at any time to reduce, suspend, or completely discontinue its contributions to the plan. Actuarial determinations are not required because 1) long-term disability insurance and survivor income insurance are provided through Cigna Group Insurance, and 2) each participant shall, at their normal retirement, instruct the Trustee to (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay their retirement benefit from their account (no City or participant contributions are to be added to the account after retirement), or (c) pay a single cash sum. When a participant terminates, the Trustee shall be instructed to pay the full amount of the participant's contributions plus the vested portion credited to their account.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year ended December 31:

	<u>2021</u>
OPEB Liabilities	\$ (7,128,161)
Deferred Outflows of Resources	-
Deferred Inflows of Resources	-
OPEB Expense	(862,798)

In addition to providing pension benefits described under "Fireman's Pension," the City provides other post-employment health care benefits. Firefighters hired between March 1, 1970 and September 30, 1977 are members of the LEOFF 1 pension system and are also eligible for a supplemental retirement benefit plus health benefits under the City plan.

General Information about the OPEB Plan

Plan Description

This system is a closed, single-employer, defined benefit OPEB plan.

Benefits Provided

The City pays the medical insurance premiums and any additional medical expenses not covered by insurance, including long-term care. These benefits were paid from the LEOFF 1 Retiree Medical Reserve Fund. In accordance with RCW 41.26.150, all employees who become eligible after age

50 or become disabled while employed with at least 5 years of service in the LEOFF 1 system are eligible.

Employees Covered by Benefit Terms

At December 31, 2021 the following employees were covered by the benefit terms:

	<u>2021</u>
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	21
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	-
Active Employees	-

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions

Under authorization of the Disability Board, the City pays the medical insurance premiums and any additional medical expenses not covered by insurance, including long-term care. The retiree does not contribute towards the cost of their medical care.

Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2021 and was determined using an actuarial valuation as of January 1, 2021. The actuarial measurement was based on the following methods and assumptions:

Methodology:	
Actuarial Cost Method	Entry Age Normal
Actuarial Asset Method	Market Value
Assumptions:	
Investment Return Assumption (Discount Rate)*	2.00%
Salary Increases	3.00%
Cost of Living Adjustments	2.25%
Inflation	2.25%
Mortality - Service-retired members and spouses	The mortality rates are based on the Pub-2010 Safety Mortality Table (headcount-weighted) with generational projection using the ultimate rates in Projection Scale MP-2017, with ages set back one year for males.
Mortality - Disabled members	The mortality rates are based on the Pub-2010 Safety Disability Mortality Table with generational projection using the ultimate rates in Projection Scale MP-2017.
Mortality - Surviving Spouses	The mortality rates are based on a blend of the Pub-2010 Safety Mortality Table and Pub-2010 Contingent Annuitant table with generational projection using the ultimate rates in Projection Scale MP-2017.
Medical Trend Rate	5.70% Grading Down to 3.7% in 2074
Long-Term Care Trend Rate	4.50%

*Discount rate is based on The Bond Buyer General Obligation 20-bond municipal index for bonds that mature in 20 years.

There were changes in methods and assumptions since the last actuarial valuation (January 1, 2021).

- Mortality assumptions changed from RP-mortality tables to those listed above. Medical trend rate changed from 5.00% to 5.70% grading down to 3.70% in 2074. Long-term care trend rate changed from 5.00% to 4.50%.

Changes in the total OPEB Liability:

	<u>2021</u>
Balance - January 1	\$ 8,365,221
Service Cost	-
Interest	163,580
Changes in Actuarial Assumptions	(44,902)
Differences Between Expected and Actual Experience	(981,476)
Benefit Payments and Withdrawals	(374,262)
Other	-
Total	<u>\$ 7,128,161</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the City calculated using a discount rate and healthcare trend rates that are 1 percentage point higher and 1 percentage point lower than the current discount rate and health care cost trend rates:

	1% Decrease	Current Rate 2%	1% Increase
Discount Rate	\$ 7,975,163	\$ 7,128,161	\$ 6,412,559

	1% Decrease	Current Rate 5.70% Grading Down to 3.7% in 2021	1% Increase
Healthcare Cost Trend Rate	\$ 6,477,083	\$ 7,128,161	\$ 7,873,981

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEB**

The City recognized OPEB expense for the year ended December 31 as follows:

	2021
Service Cost	\$ -
Interest Cost	163,580
Amortization of Deferred Inflows and Outflows	(1,026,378)
Total	<u>\$ (862,798)</u>

NOTE 12 – LONG-TERM DEBT

The City of Edmonds issues general obligation and revenue bonds to finance the acquisition and construction of major capital facilities and capital programs. General obligation bonds have been issued in the past for both general government and business type activities and are being repaid from the applicable resources. Governmental Activities long-term debt is paid from property and sales tax revenues. Revenue bonds are repaid out of the revenues generated by the related utility.

The City of Edmonds is liable for multiple direct borrowing notes. There are seven Public Works Trust Fund Loans; three of the notes are general obligation and four notes are businesses-type. The City is liable for a note awarded by the Washington State Department of Ecology for the Wastewater Treatment Plant Electrical Improvements Project and a Snohomish County Public Works Assistance Fund note to finance the construction of a Stormwater Pump Station. The City is also liable for a 2016 Chase Bank direct borrowing note which was issued to refinance the City's 2007 general obligation bond. The notes from direct borrowing are considered obligations of both the general government and the utility and are being repaid from the applicable resources. The City is in compliance with all Washington State debt limitation statutes and bond indenture agreements.

In November of 2021, the City issued Limited Tax General Obligation Improvement and Refunding Bonds (2021A) in the amount of \$12,020,000. The debt issue included new money for the Civic Park Project and Deferred Facility Maintenance in the amount of \$5,435,000. The debt issue also included \$6,585,000 to refund the City's 2011 Water and Sewer Revenue Bonds. The City also issued \$2,680,000 in Limited Tax General Obligation Refunding Bonds (2021B) to refund the Public Facilities District portion of the 2012 LTGO Bond.

General obligation bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/2021
Governmental Debt:					
2012 LTGO Refunding Bonds	12/1/2031	3.00%	\$ 9,325,000	\$ 2,862,981	\$ 1,000,000
2019 LTGO Bond - Civic Park	12/1/2039	5.00%	3,485,000	120,000	3,255,000
2021 LTGOA Bond - Civic Park & Facilities	12/1/2041	5.00%	5,435,000	-	5,435,000
2021 LTGOB Bond - PFD Refinance	12/1/2041	5.00%	2,680,000	-	2,680,000
Total Governmental GO Bonds			20,925,000	2,982,981	12,370,000
Business-type Debt:					
<u>General Obligation Bonds:</u>					
2012 LTGO Refunding Bonds	12/1/2031	2.00%	620,957	32,019	-
2021 LTGOA Bond - 2011 Refinance	12/1/2031	5.00%	6,585,000	-	6,585,000
Total Business- type GO Bonds			7,205,957	32,019	6,585,000
Total General Obligation Bonds			<u>\$ 28,130,957</u>	<u>\$ 3,015,000</u>	<u>\$ 18,955,000</u>

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year	GOVERNMENTAL ACTIVITIES			BUSINESS TYPE ACTIVITIES		
	Principal	Interest	Total	Principal	Interest	Total
2022	525,000	377,012	902,012	515,000	336,567	851,567
2023	550,000	352,265	902,265	550,000	303,500	853,500
2024	575,000	332,128	907,128	580,000	276,000	856,000
2025	590,000	310,828	900,828	605,000	247,000	852,000
2026	610,000	288,653	898,653	635,000	216,750	851,750
2027-2031	3,135,000	1,088,394	4,223,394	3,700,000	572,750	4,272,750
2032-2036	3,235,000	578,465	3,813,465	-	-	-
2037-2041	3,150,000	197,640	3,347,640	-	-	-
	<u>\$ 12,370,000</u>	<u>\$ 3,525,383</u>	<u>\$ 15,895,383</u>	<u>\$ 6,585,000</u>	<u>\$ 1,952,567</u>	<u>\$ 8,537,567</u>

Revenue bonds currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/2021
Business- type Debt:					
2011 Water/Sew er Bonds	12/1/2031	4.00%	\$ 13,720,000	\$ 8,705,000	\$ -
2013 Water/Sew er Bonds	12/1/2038	5.00%	15,010,000	215,000	13,515,000
2015 Water/Sew er Bonds	12/1/2040	2.00%	18,740,000	570,000	15,375,000
2020 Water/Sew er Bonds	12/1/2045	2.00%	13,875,000	-	13,875,000
Total Revenue Bonds			<u>\$ 61,345,000</u>	<u>\$ 9,490,000</u>	<u>\$ 42,765,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year	BUSINESS TYPE ACTIVITIES		
	Principal	Interest	Total
2022	810,000	1,482,728	2,292,728
2023	840,000	1,453,828	2,293,828
2024	875,000	1,417,828	2,292,828
2025	915,000	1,380,328	2,295,328
2026	955,000	1,343,728	2,298,728
2027-2031	5,250,000	6,216,394	11,466,394
2032-2036	11,680,000	4,704,061	16,384,061
2037-2041	11,945,000	2,122,464	14,067,464
2042-2046	9,495,000	540,113	10,035,113
	<u>\$ 42,765,000</u>	<u>\$ 20,661,469</u>	<u>\$ 63,426,469</u>

Notes from Direct Borrowing currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/2021
Governmental Debt:					
2016 Chase Bank Loan	12/1/2026	1.67%	\$ 838,526	\$ 83,272	\$ 437,850
P W Trust Fund Loan - Street Construction	6/30/2022	0.50%	340,000	18,143	18,143
P W Trust Fund Loan - Street Construction	6/30/2024	0.50%	400,000	21,176	63,529
P W Trust Fund Loan - Street Construction	5/24/2026	0.50%	624,750	32,882	164,408
Total Governmental Notes from Direct Borrowings			2,203,276	155,474	683,931
Business-type Debt:					
2016 Chase Bank Loan	12/1/2026	1.67%	2,328,116	231,200	1,215,663
P W Trust Fund Loan - Trt. Plant/Sewer Improv.	6/30/2022	0.50%	1,347,250	71,325	71,325
P W Trust Fund Loan - Water Improvements	6/30/2024	0.50%	408,000	25,839	77,517
P W Trust Fund Loan - Storm Improvements	6/30/2024	0.50%	605,625	32,063	96,188
P W Trust Fund Loan - Sewer Improvements	6/30/2025	0.50%	1,216,902	72,295	289,181
Department of Ecology	10/31/2033	2.30%	638,540	30,268	423,047
Snohomish County Loan	7/1/2037	1.50%	545,000	21,513	501,974
Total Business-type Notes from Direct Borrowings			7,089,433	484,502	2,674,894
Total Notes from Direct Borrowings			\$ 9,292,709	\$ 639,976	\$ 3,358,825

The annual debt service requirements to maturity for debt from direct borrowings are as follows:

Year	GOVERNMENTAL ACTIVITIES			BUSINESS TYPE ACTIVITIES		
	Principal	Interest	Total	Principal	Interest	Total
2022	156,443	8,543	164,986	495,913	39,494	535,406
2023	140,509	6,775	147,284	431,441	34,025	465,465
2024	141,280	5,061	146,341	434,319	28,186	462,505
2025	121,976	3,334	125,310	382,369	22,294	404,663
2026	123,723	1,681	125,404	315,695	16,587	332,283
2027-2031	-	-	-	329,613	43,022	372,635
2032-2036	-	-	-	226,488	13,364	239,852
2037-2041	-	-	-	59,056	1,329	60,384
	\$ 683,931	\$ 25,393	\$ 709,324	\$ 2,674,894	\$ 198,300	\$ 2,873,193

At December 31, 2021 the City had \$3,279,631 in the Enterprise funds available for debt service.

Debt service for the LTGO bonds and governmental notes from direct borrowing are met by the General Fund and certain special revenue funds, and reimbursements from proprietary funds of the City with the exception of the 2021 LTGOB bond. The Public Facilities District (PFD) is obligated by inter-local agreement to pay the entire amount of the 2021 LTGOB debt service over the life of the bonds. (See Note 1). Debt service for the revenue bonds is paid by the Utility Fund. In prior years the City has typically used the General Fund to liquidate long-term liabilities other than debt.

Nonexchange Financial Guarantees currently outstanding are as follows:

Issue Name	Maturity Date	Interest Rates	Original Amount	Principal Installment	Balance 12/31/2021
Governmental Debt					
Edmonds Public Facilities District	12/1/2025	0.700%	\$ 1,312,868	\$ 184,770	\$ -
Total Nonexchange Financial Guarantee			\$ 1,312,868	\$ 184,770	\$ -

Nonexchange Financial Guarantee – In 2008, the City of Edmonds guaranteed the 17-year, \$4 million general obligation bond issuance of the Edmonds Public Facilities District (PFD), a legally

separate district within the City, in accordance with the authority provided by the Washington State Legislature and codified in RCW Chapters 35.57 and 39.46. The City guaranteed repayment of these bonds through a Contingent Loan Agreement (CLA) with the PFD, and has advanced funds to them to assist with debt service on these bonds.

In 2018 the PFD refinanced these bonds by issuing a 10-year Note to First Financial Northwest Bank (FFNB) in the amount of \$2,803,516. At the same time the City purchased an interest bearing Certificate of Deposit in the same amount, to be held by FFNB as collateral. Each time the PFD makes a principal payment on the loan, the City has the option to reduce the balance of the Certificate of Deposit by the amount of the principal payment.

In the event that the PFD is unable to make a payment, the CLA requires that the City will loan the PFD enough for them to be able to make the required payment. As of December 31, 2021, the City's contingent loan balance to the PFD is \$1,166,887. These advances are shown in the City's Statement of Net Position as a Due from Component Unit. Because of the debt restructuring undertaken with FFNB and the extension of a dedicated sales tax stream that will support future debt payments, the City believes that the likelihood that the City will be required to make additional loans to the PFD has significantly diminished. In recognition of this the City has eliminated the liability completely, as the City now expects to recover the entire balance of all past loans made under the CLA.

The liability recognized for nonexchange financial guarantees by the City for 2021 has been reduced to \$0, as follows:

Balance 12/31/2020	Increases	Decreases	Balance 12/31/2021
\$ 184,770	\$ -	\$ 184,770	\$ -

Debt Limit – RCW 39.36.020 provides cities with three segments of debt capacity, each equal to 2.5% of the city's assessed valuation, for a combined total of 7.5%. Allowable uses of these segments are as follows:

Segment 1 – General Governmental Purposes

The City can incur debt up to one and one-half percent (1.5%) of its assessed valuation solely with a vote of the legislative body (often referred to as "councilmanic" debt). To use the remaining one percent (1.0%), a 60 percent vote in favor of the issue by at least 40 percent of the number of voters who voted in the last general election is required.

Segment 2 – City-Owned Water and Sewer Purposes

The City can incur debt up to an additional two and one-half percent (2.5%) for water and sewer purposes with a 60 percent vote in favor of the issue by at least 40 percent of the number of voters who voted in the last general election.

Segment 3 – Acquiring and Developing Open Space, Parks Facilities, and Capital Facilities Associated with Economic Development

The City can incur debt up to an additional two and one-half percent (2.5%) for acquiring and developing open space, parks facilities, and capital facilities associated with economic development purposes with a 60 percent vote in favor of the issue by at least 40 percent of the number of voters who voted in the last general election.

Debt Limit Capacity

Item	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	Without Vote (Councilmanic)	With Vote	With Vote	With Vote
	1.5%	2.5%	2.5%	2.5%
Legal Limits	\$ 174,731,894	\$ 116,487,929	\$ 291,219,823	\$ 291,219,823
Net outstanding indebtedness	(19,247,171)	-	-	-
Margin Available	\$ 155,484,723	\$ 116,487,929	\$ 291,219,823	\$ 291,219,823

Refunded Debt

In November 2021, the City issued general obligation bonds (LTGOA) to refund the 2011 revenue bonds. The City also issued LTGOB in November of 2021 to refund a portion of the 2012 LTGO debt issue that was attributable to the Public Facilities District (PFD). The LTGOA and LTGOB proceeds were used to purchase U.S. government and state and local government series securities that were placed in an irrevocable trust for the purposes of generating resources for all future debt services payments. The LTGOA proceeds refunded \$8,045,000 and the LTGOB refunded \$2,585,000. As a result, the refunded bonds are considered to be defeased. The 2011 revenue bond liability has been removed from the business-type activities column of the statement of net position. The advance refunding was undertaken to reduce the total debt service payments for the next 10 years by \$1,280,240 and resulted in an economic gain of \$1,178,315. The PFD portion of the 2012 LTGO bond liability has been removed from the governmental activities column of the statement of net position. There were no savings or economic gain with the 2021B debt issuance. The refunding offered the PFD the ability to extend the repayment schedule from December of 2026 to December of 2041 so that the PFD could take advantage of public facilities sales tax revenue.

In prior years, the City has defeased the 2007 general obligation bond and several revenue bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. Government securities that were placed in the trust funds. These investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed from City financial statements.

Terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses.

If the principal of any Bond is not paid when the Bond is properly presented at its maturity date or date fixed for redemption, the City will be obligated to pay interest on the Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until the Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund or in a trust account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner.

If Snohomish County finds that the City has failed to comply with the terms of the loan agreement, the County can declare the City in default and terminate the Agreement in whole. The City has 5 days from written notice to remedy said default. In the event the City fails to remedy the default, the County shall issue the City of Edmonds written notice of termination and declare the principle amount owing and interest due at the time to be immediately due and payable.

The Washington State Public Works Trust Fund loans will assess a daily penalty beginning on the 31st day past the due date. The penalty will be assessed on the entire payment amount. The penalty will be 12% per annum calculated on a 360-day year for the delinquent amount.

The Washington State Department of Ecology loan will assess a late charge of one percent per month on the past due amount starting on the date the debt becomes past due and until it is paid in full. If the Department of Ecology initiates a termination event or a loan default event occurs, the Department of Ecology may at its sole discretion demand that the City repay the outstanding balance of the loan amount and all accrued interest. In the event of a default, the Department may declare the principal of and interest on the loan immediately due and payable.

Arbitrage – The Federal Tax Reform Act of 1986 requires tax-exempt debt issuers to pay investment income received at yields that exceed the issuer's borrowing rates to the United States Treasury. The liability is recorded at present value and payable every five years or 60 days after defeasance of the debt. At December 31, 2021, the City of Edmonds had no arbitrage liability.

Revenue Bond Debt Service Coverage – The required debt service coverage for the utility revenue bonds is 1.25. Please refer to Schedule 15 in the Statistical Section.

NOTE 13 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2021	Additions	Reductions	Ending Balance 12/31/2021	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 7,237,981	\$ 8,115,000	\$ (2,982,981)	\$ 12,370,000	\$ 525,000
Less:					
For issuance premiums	285,897	693,697	(15,047)	964,547	49,732
Total bonds payable:	7,523,878	8,808,697	(2,998,028)	13,334,547	574,732
Pension liabilities	4,558,174	-	(3,016,287)	1,541,887	-
Total OPEB liability	8,365,221	-	(1,237,060)	7,128,161	372,000
Compensated absences	2,495,038	2,536,652	(2,391,153)	2,640,537	1,839,348
Governmental notes-direct borrowing	839,405	-	(155,474)	683,931	156,443
Nonexchange financial guarantee	184,770	-	(184,770)	-	-
Governmental activity long-term liabilities	\$ 23,966,486	\$ 11,345,349	\$ (9,982,771)	\$ 25,329,063	\$ 2,942,523
Business-type activities					
Bonds Payable:					
General obligation bonds	32,019	\$ 6,585,000	\$ (32,019)	\$ 6,585,000	\$ 515,000
Revenue bonds	52,255,000	-	(9,490,000)	42,765,000	810,000
Less:					
For issuance premiums	510,301	1,517,470	(246,816)	1,780,955	34,984
For issuance discount	(162,108)	-	6,484	(155,624)	(6,484)
Total bonds payable:	52,635,212	8,102,470	(9,762,351)	50,975,331	1,353,500
Pension liabilities	936,895	-	(724,910)	211,985	-
Compensated absences	412,150	421,357	(437,225)	396,282	336,327
Business-type notes-direct borrowing	3,023,147	136,250	(484,502)	2,674,895	495,912
Business-type activity long-term liabilities	\$ 57,007,404	\$ 8,660,077	\$ (11,408,988)	\$ 54,258,493	\$ 2,185,739

Internal service funds predominately serve the governmental funds. Accordingly, the December 31, 2021 long-term liabilities for the fund are included as part of the above totals for governmental activities. At year-end internal service fund balances include \$117,876 for compensated absences and \$44,990 for the total pension obligation.

The General Fund is typically used to liquidate long-term liabilities other than debt.

NOTE 14 – CONTINGENCIES AND LITIGATIONS

Other Contingencies – The City has recorded in its financial statement all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes that it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies are adequate to pay all known or pending claims.

Grants – The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that any such disallowances, if any, will be immaterial.

NOTE 15 – RISK MANAGEMENT

Property and Liability Insurance – The City of Edmonds is exposed to various risks of loss from torts; thefts of damage or destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters.

The City and its employees contribute to the State of Washington's Department of Labor and Industries for Workers' Compensation. There were no settlements in excess of coverage in any of the prior three years.

The City of Edmonds is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW and Chapter 39.34 RCW, nine cities originally formed the WCIA on January 1, 1981. The WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and 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 and 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 coverage 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. The City currently has no such assessments due to WCIA. The City incurred no settlements in excess of coverage in any of the past three years.

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 daily operations of WCIA.

Employee Benefit Trust Health Care Program – The City of Edmonds 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, 2022, 262 cities, towns, or 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. 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.

NOTE 16 – COMMITMENTS

The City has several capital improvement projects in progress. As of December 31, 2021, the City's outstanding material contractual obligations, which include construction and engineering contracts, are summarized below:

Contract Name	Original Amount	Expenditures to Date	Remaining Commitment
Waterfront Redevelopment	4,651,380	4,594,547	56,833
Hwy 99 Gateway Revitalization	1,626,997	1,461,068	165,930
84th Ave Overlay	868,156	852,500	15,655
2021 Overlay Program	972,039	834,350	137,689
Five Corners Recoating Project	564,437	533,747	30,690
Dayton Street Stormwater Pump Station	1,960,597	1,845,246	115,351
Phase 7 Sanitary Sewer Replacement Project	2,476,556	2,419,902	56,654
Citywide Crossing Enhancements	1,743,773	1,311,676	432,097
Phase 2 & 3 Storm Utility Replacement	1,323,382	827,986	495,396
Phase 8 Sewerline Replacement Program	1,008,702	881,976	126,726
Ph 10 Waterline & Swedish Hospital Water System	2,485,815	2,261,274	224,541
Phase 11 Waterline Replacement Project	403,700	353,189	50,511
Civic Center Playfield	12,998,507	5,673,621	7,324,886
On-Call Wastewater Engineering Services	25,000	6,758	18,242
2020 Capital Projects CM, Engineering & Inspection Service	297,600	209,169	88,431
Citywide Bicycle Improvements	309,521	280,399	29,122
Seaview Park Infiltration Facility Phase 2	209,353	143,572	65,781
Yost & Sewer Reservoir Assessment	96,867	59,203	37,664
Edmonds Marsh Feasibility Study - Willow Creek Daylighting	534,325	509,689	24,636
Lift Station #1 Basin & Flow Study	268,681	228,877	39,804
Lake Ballinger Sewer Trunk Main Study	295,148	68,794	226,354
Stormwater Comprehensive Plan Update	97,090	8,485	88,605
2017 CIPP Sewer Repairs	97,124	85,666	11,458
76th Ave & 220th St. Intersection Improvements	232,466	162,146	70,320
Ballinger Regional Facility	324,869	314,956	9,913
Edmonds Public Works Apron Repair	25,000	21,755	3,245
76th Ave Overlay	136,844	91,738	45,105
Elm Way Walkway	139,972	84,683	55,289
175th St. SW Slope	29,429	27,409	2,020
Perrinville Creek Recovery Study	48,000	47,716	284
Phase 9 Sewerline Replacement	419,885	244,121	175,764
Phase 12 Waterline Replacement Project	303,100	237,806	65,294
2021 Guardrail Installation Project	16,176	10,647	5,529
Restrooms	26,112	21,843	4,269
	\$ 37,016,603	\$ 26,716,516	\$ 10,300,086

FIREMEN'S PENSION FUND OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service Cost	\$ -	\$ -	\$ -	\$ -
Interest	163,580	211,775	272,551	225,578
Effect of Economic/Demographic (Gains) or	(981,476)	-	-	-
Effect of Assumptions Changes or Inputs	(44,902)	631,263	961,775	(569,353)
Benefit Payments and Withdrawals	<u>(374,262)</u>	<u>(355,049)</u>	<u>(338,445)</u>	<u>(388,253)</u>
Net Change in Total OPEB Liability	(1,237,060)	487,989	895,881	(732,028)
Total OPEB Liability - Beginning	<u>8,365,221</u>	<u>7,877,232</u>	<u>6,981,351</u>	<u>7,713,379</u>
Total OPEB Liability - Ending	<u><u>\$7,128,161</u></u>	<u><u>\$8,365,221</u></u>	<u><u>\$7,877,232</u></u>	<u><u>\$6,981,351</u></u>
 Covered Payroll	 \$ -	 \$ -	 \$ -	 \$ -
 Total OPEB Liability as a % of Covered Payro	 N/A	 N/A	 N/A	 N/A

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

* Until a full 10-year trend is compiled, only information for those years available is presented.

FIREMEN'S PENSION FUND
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY
AND RELATED RATIOS
LAST 10 FISCAL YEARS*

	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	11,898	16,828	26,547	19,147	23,528	15,991	16,365	30,016
Changes in Benefits Provided	-	-	-	-	-	188,817	-	-
Deconomic/Demographic								
Gains or Losses	26,732	-	67,664	96,849	-	17,054	-	(256,011)
Changes in Actuarial Assumptions	44,613	29,948	(55,159)	(4,985)	37,919	(13,330)	-	(31,502)
Benefit Payments and Withdrawals	(65,711)	(61,740)	(119,116)	(53,203)	(48,062)	(27,936)	(26,175)	(24,481)
Net Change in Total Pension Liability	17,532	(14,964)	(80,064)	57,808	13,385	180,596	(9,810)	(281,978)
Total Pension Liability - Beginning	627,613	642,577	722,641	664,833	651,448	470,852	480,662	762,640
Total Pension Liability - Ending	<u>\$ 645,145</u>	<u>\$ 627,613</u>	<u>\$ 642,577</u>	<u>\$ 722,641</u>	<u>\$ 664,833</u>	<u>\$ 651,448</u>	<u>\$ 470,852</u>	<u>\$ 480,662</u>
Fiduciary Net Position								
Contributions - Employer	\$ -	\$ 15,000	\$ 15,000	\$ 39,297	\$ 46,613	\$ 47,449	\$ 38,775	\$ 21,581
Contributions from State Fire Insurance								
Premium Tax	53,334	51,491	48,232	-	-	-	-	-
Net Investment Income	-	3,897	6,605	5,662	4,455	2,296	1,629	662
Benefit Payments and Withdrawals	(65,711)	(61,740)	(119,116)	(53,203)	(48,062)	(27,936)	(26,175)	(24,481)
Medical payments from fund	(21,288)	(19,258)	(20,417)	-	-	-	-	-
Administrative Expenses	(11,500)	(1,007)	(1,269)	(538)	(1,222)	(214)	-	-
Other	-	-	-	-	-	-	96	-
Change in Fiduciary Net Position	(45,165)	(11,617)	(70,965)	(8,782)	1,784	21,595	14,325	(2,238)
Fiduciary Net Position - Beginning	135,116	146,733	217,698	226,480	224,696	203,101	188,776	191,014
Fiduciary Net Position - Ending	<u>\$ 89,951</u>	<u>\$ 135,116</u>	<u>\$ 146,733</u>	<u>\$ 217,698</u>	<u>\$ 226,480</u>	<u>\$ 224,696</u>	<u>\$ 203,101</u>	<u>\$ 188,776</u>
Net Pension Liability	<u>\$ 555,194</u>	<u>\$ 492,497</u>	<u>\$ 495,844</u>	<u>\$ 504,943</u>	<u>\$ 438,353</u>	<u>\$ 426,752</u>	<u>\$ 267,751</u>	<u>\$ 291,886</u>
Fiduciary Net Position as a % of the								
Total Pension Liability	13.9%	21.5%	22.8%	30.1%	34.1%	34.5%	43.1%	39.3%
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Pension Liability as a % of								
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Information is presented only for those years for which information is available.

**FIREMEN'S PENSION FUND
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 FISCAL YEARS**

Year	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll	Annual Money Weighted Rate of Return Net of Investment Expense
2021	\$ 100,000	\$ 20,546	\$ 79,454	\$ -	N/A	- %
2020	82,874	47,233	35,641	-	N/A	2.88
2019	82,874	42,815	40,059	-	N/A	3.75
2018	43,194	39,297	3,897	-	N/A	2.58
2017	43,194	46,613	(3,419)	-	N/A	1.99
2016	25,353	47,449	(22,096)	-	N/A	1.08
2015	25,353	38,775	(13,422)	-	N/A	0.83
2014	44,223	21,581	22,642	-	N/A	0.35
2013	44,223	(3,576)	47,799	-	N/A	0.17
2012	38,602	42,004	(3,402)	-	N/A	0.14

* Information is presented only for those years for which information is available.

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT AUDITOR'S REPORT)

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
2021	0.098153%	\$ 1,198,678	\$ 14,572,391	8.23%	88.74%
2020	0.097758%	3,451,385	14,373,946	24.01%	68.64%
2019	0.097960%	3,766,920	13,393,923	28.12%	67.12%
2018	0.090868%	4,058,195	12,701,466	31.95%	63.22%
2017	0.109876%	5,213,702	13,404,013	38.90%	61.24%
2016	0.101894%	5,472,188	14,068,530	38.90%	57.03%
2015	0.101786%	5,324,534	13,688,460	38.90%	59.10%

Notes to Schedule:

*Information is presented only for those years for which information is available.

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
2021	0.119926%	\$ (11,946,559)	\$ 14,300,600	-83.54%	120.29%
2020	0.120113%	1,536,177	14,092,149	10.90%	97.22%
2019	0.119772%	1,163,393	13,101,081	8.88%	97.77%
2018	0.109886%	1,876,206	12,370,371	15.17%	95.77%
2017	0.133191%	4,627,751	13,053,673	35.45%	90.97%
2016	0.121658%	6,125,384	12,502,808	48.99%	85.82%
2015	0.121602%	4,344,909	11,627,811	37.37%	89.20%

Notes to Schedule:

*Information is presented only for those years for which information is available.

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT AUDITOR'S REPORT)

LEOFF 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability (Asset) Associated With The Employer	Total	Employer's Covered Payroll
2021	0.055212%	\$ (1,891,321)	\$ (12,792,850)	\$ (14,684,171)	\$ -
2020	0.055457%	(1,047,310)	(7,083,982)	(8,131,292)	-
2019	0.053590%	(1,059,266)	(7,164,848)	(8,224,114)	-
2018	0.053132%	(964,613)	(6,524,615)	(7,489,228)	-
2017	0.055859%	(847,504)	(5,732,485)	(6,579,989)	-
2016	0.055141%	(568,110)	(5,363,896)	(5,932,006)	-
2015	0.054022%	(651,084)	(5,125,471)	(5,776,555)	-
	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>			
2021	0.00%	187.45%			
2020	0.00%	146.88%			
2019	0.00%	148.78%			
2018	0.00%	144.42%			
2017	0.00%	135.96%			
2016	0.00%	123.74%			
2015	0.00%	127.36%			

Notes to Schedule:

*Information is presented only for those years for which information is available.

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT AUDITOR'S REPORT)

LEOFF 2

<u>Year</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>State's Proportionate Share of the Net Pension Liability (Asset) Associated With The Employer</u>	<u>Total</u>	<u>Employer's Covered Payroll</u>
2021	0.179760%	\$ (10,441,205)	\$ (6,735,717)	\$ (17,176,922)	\$ 6,588,759
2020	0.176926%	(3,609,032)	(2,307,703)	(5,916,735)	6,654,735
2019	0.192032%	(4,448,792)	(2,913,363)	(7,362,155)	6,764,235
2018	0.180721%	(3,669,030)	(797,902)	(4,466,932)	6,513,429
2017	0.201856%	(2,801,107)	(545,988)	(3,347,095)	3,524,363
2016	0.184178%	(1,071,235)	(229,538)	(1,300,773)	3,059,830
2015	0.183336%	(1,884,327)	(409,091)	(2,293,418)	2,861,034
	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>			
2021	-158.47%	142.00%			
2020	-54.23%	115.83%			
2019	-65.77%	119.43%			
2018	-56.33%	118.50%			
2017	-79.48%	113.36%			
2016	-35.01%	106.04%			
2015	-65.86%	111.67%			

Notes to Schedule:

*Information is presented only for those years for which information is available.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ 653,722	\$ (653,722)	\$ -	\$ 14,769,812	4.43%
2020	719,557	(719,557)	-	14,529,989	4.95%
2019	710,800	(710,800)	-	13,939,730	5.10%
2018	676,511	(676,511)	-	12,882,202	5.25%
2017	639,839	(639,839)	-	12,597,735	5.08%
2016	620,544	(620,544)	-	12,099,373	5.13%
2015	583,605	(583,605)	-	11,674,157	5.00%

Notes to Schedule:

* Information is presented only for those years for which information is available.

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ 1,035,366	\$ (1,035,366)	\$ -	\$ 14,495,277	7.14%
2020	1,128,159	(1,128,159)	-	14,244,396	7.92%
2019	1,054,573	(1,054,573)	-	13,663,708	7.72%
2018	942,080	(942,080)	-	12,560,116	7.50%
2017	842,249	(842,249)	-	12,270,542	6.86%
2016	743,678	(743,678)	-	11,845,981	6.28%
2015	710,849	(710,849)	-	11,203,929	6.34%

Notes to Schedule:

* Information is presented only for those years for which information is available.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

LEOFF 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ -	\$ -	\$ -	\$ -	0.00%
2020	-	-	-	-	0.00%
2019	-	-	-	-	0.00%
2018	-	-	-	-	0.00%
2017	-	-	-	-	0.00%
2016					
2015					

Notes to Schedule:

* Information is presented only for those years for which information is available.

LEOFF 2

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ 339,281	\$ (339,281)	\$ -	\$ 6,588,759	5.15%
2020	360,086	(360,086)	-	6,991,945	5.15%
2019	354,709	(354,709)	-	6,769,231	5.24%
2018	180,384	(180,384)	-	6,552,661	2.75%
2017	176,008	(176,008)	-	6,142,987	2.87%
2016	154,521	(154,521)	-	3,059,830	5.05%
2015	144,483	(144,483)	-	2,861,034	5.05%

Notes to Schedule:

* Information is presented only for those years for which information is available.

City of Edmonds
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607	N/A	-	11,700	11,700	-	1,2,4
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-2509 (001)	1,392	-	1,392	-	1,2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	SRTS-0365 (013)	680,646	-	680,646	-	1,2
Total Highway Planning and Construction Cluster:				682,038	-	682,038	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	1,635	-	1,635	-	1,2,4
Total Highway Safety Cluster:				1,635	-	1,635	-	
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Administrative Office of the Courts)	COVID 19 - Coronavirus Relief Fund	21.019	CARES063	39,079	-	39,079	-	1,2,4

The accompanying notes are an integral part of this schedule.

City of Edmonds

Expenditures

The accompanying notes are an integral part of this schedule.

CITY OF EDMONDS, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2021

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Edmonds' financial statements. The City uses the modified accrual accounting method which is followed in all government funds, expendable trust, and agency funds and the full accrual accounting method in its proprietary funds.

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – INDIRECT COST RATE

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

NOTE 4 – PRIOR YEAR EXPENSES REPORTED

Expenses from 2020 in the amount of \$39,078.90 for Court costs related to COVID-19, \$2,671.42 for Bulletproof Vests purchased, and \$417.45 for DUI emphasis are included in this total.

CITY OF EDMONDS

121 5th Avenue North, Edmonds, WA 98020
 (425) 771-0240 | www.edmondswa.gov

**FINANCE AND INFORMATION SERVICES DEPARTMENT**

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Edmonds
January 1, 2021 through December 31, 2021

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

Finding ref number: 2021-001	Finding caption: The City did not have adequate internal controls ensuring accurate reporting of grant funds received in advance and the elimination of interfund reimbursements in their financial statements.
Name, address, and telephone of City contact person: Dave Turley, Director of Administrative Services 121 5th Avenue North Edmonds, WA 98020 (425) 275-4688	
Corrective action the auditee plans to take in response to the finding: ARPA – The City has already changed the recording of ARPA revenue to agree to the method described and will continue that practice as long as we are administering ARPA funds. Interfund Eliminations – The City is currently examining what the effects of making this change will be, as this will require us to implement changes in the way we budget for central services and report their impacts to the financial statements.	
Anticipated date to complete the corrective action: We have already implemented this corrective action and it should be fully in place for 2022 reporting.	

Finding ref number: 2021-002	Finding caption: The City's internal controls were inadequate for ensuring compliance with federal requirements for allowable costs, suspension and debarment, and subrecipient monitoring.
Name, address, and telephone of City contact person: Dave Turley, Director of Administrative Services 121 5 th Avenue North Edmonds, WA 98020 (425) 275-4688	
Corrective action the auditee plans to take in response to the finding: The City will ensure that the distribution of any support payments to individuals and businesses will comply with stated eligibility requirements, and that documentation, monitoring and reporting requirements on the part of the City will be performed properly.	
Anticipated date to complete the corrective action: We have already begun implementing this corrective action and plan for it to be fully in place for 2022 reporting requirements.	

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.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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