



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Arlington

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published September 30, 2015

Report No. 1015133





Washington State Auditor's Office

September 30, 2015

Mayor and City Council
City of Arlington
Arlington, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

**City of Arlington
Snohomish County
January 1, 2014 through December 31, 2014**

The results of our audit of the City of Arlington are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

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 instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control Over Major Programs:

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

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

**City of Arlington
Snohomish County
January 1, 2014 through December 31, 2014**

2014-001 **The City’s internal controls were not adequate to ensure Airport revenues were not diverted to support general government activities and that late fees were assessed in accordance with lease agreements.**

CFDA Number and Title:	20.106 Airport Improvement Program
Federal Grantor Name:	U.S. Department of Transportation Federal Aviation Administration
Federal Award/Contract Number:	3-53-0002-023-2012/3-53-0002-024-2013
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$0

Background

The City reported federal expenditures totaling \$1,121,982 in 2014 for two projects paid for by the Airport Improvement Program Grant. These funds were provided by the United States Department of Transportation Federal Aviation Administration (FAA). Program requirements require that all revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property.

Description of Condition

Our audit focused on the City’s internal controls to ensure it was collecting revenues generated by the Airport and expending those funds for capital and operating costs of the Airport. We found:

- The City uses Airport facilities and revenues to provide office space at no cost for a City department that performs general government services. As a result, the City's General Fund is benefitting from the use of Airport revenues and facilities without compensation, which is considered to be revenue diversion.
- The City has not properly applied the late fee provisions of its Airport lease agreements, which require billing these charges to tenants when payments are received after the due date.

We consider these weaknesses in internal controls, collectively, to be a significant deficiency.

Cause of Condition

The City did not prepare a lease for the City department using the office space.

Further, the City has experienced turnover in its Airport Supervisor and Airport Manager positions.

Effect of Condition

By not charging the City's General Fund for use of Airport facilities, the City diverted Airport revenues totaling \$11,520.

Further, by not properly billing late fees on the 14 out of 19 lease payments we tested from a total of 160 leases, the Airport did not bill \$6,498 in late charges related to the late payments. The leases require late fees to be billed if payment is not received by the 10th of the month. The City's financial software system applies late fees to leases if payment is not received by the 20th of the month. Based on the results of our sample, we projected total likely late fee revenues to be \$47,386.

Although, the City diverted revenues and did not properly bill for late fees, there are no questioned costs related to grant expenditures because total airport revenues exceeded airport expenditures.

Recommendation

We recommend the City:

- Ensure Airport revenues are used for operating and capital expenditures of the Airport and not diverted for other non-airport expenditures.
- Ensure late fees are assessed in accordance with lease agreements.

City's Response

The City is aware of its responsibility to maintain internal controls over Airport financial activities, and appreciates that our partners at the State Auditors' Office (SAO) have again conducted a thorough review of the procedures at the Airport. With the diversity of businesses located at the airport, there is a labyrinth of regulation in everything from setting lease rates to taxes. Federal, state, county and local regulators include the Federal Aviation Administration, the state of Washington, Snohomish County, and the Arlington Municipal Code. It is challenging to determine which policies, procedures, and practices prevail when they conflict.

The City moved its Community and Economic Development Department, part of the General Fund, to the Airport building in November 2013. The State Auditor's Office issued a finding on this item for the 2013 Audit. This audit was not completed until April 2015, after the close of the 2014 Fiscal year. The delay in issuing the Audit report for 2013 did not allow the City an opportunity to analyze the services provided and the space utilized to determine if any cost allocations to the Airport needed to be made prior to the close of the 2014 fiscal year. As the Auditor is well aware, the City faced a significant fiscal crisis in the General Fund during the economic downturn. In an effort to be efficient with the taxpayer's dollars, the City deemed there were economies of scale to combine staff, office equipment and office space. All staff at the Airport Office perform duties for both the Airport and Community & Economic Development. The services provided to the Airport by Community & Economic Development staff are paid for by the Airport fund. In addition, all supplies, materials and equipment used by the staff are segregated and paid for out of the appropriate funds. The cost of all shared office equipment is split between funds. The City achieved a high level of cross training and integration of the Airport office staff into the Community & Economic Development Department with this consolidation, serving both the airport tenants and the taxpayers, and allowed the City to focus on rebuilding its reserves. In addition, the City believed there should be no charge for the space used by the Community & Economic Development staff as the Airport would not be able to lease the internal office space to any other business. Since the 2013 Audit Report issuance, the City has reviewed and analyzed this usage and has implemented an appropriate charge to the Community & Economic Development Department for the space it utilizes at the Airport. This has been corrected in the 2015 Budget and will continue to be charged in future budget years as required.

An experienced Airport Manager was hired in August 2014 and has instituted a number of changes to improve the Airport's internal controls and tracking of

financial activities. While the City does not believe it has had, or is having a loss of Airport revenue, it acknowledges that the procedures that have been put in place will more quickly identify a potential issue. The Airport staff will be working closely with the city's Finance Department to complete accurate airport billing and collection services, internal audits and monitoring for lease compliance, grant management, and establishing and updating Airport processes and procedures for file management and internal controls. In addition, staff will be correcting the financial software system to accurately apply late fees to the leases.

The City recognizes the importance of maintaining adequate internal controls, and appreciates the input from the SAO to assist with better safeguarding of public assets. We look forward to completing the update of our procedures, tightening our airport leasing controls, and our internal controls which will continue to create an environment that draws aviators and businesses to our wonderful facility.

Auditor's Remarks

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

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and

any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively . . .

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur . . .

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Section II - Definitions, states:

C. Unlawful Revenue Diversion

Unlawful revenue diversion is the use of airport revenue for purposes other than the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property, when the use is not “grandfathered” under 49 U.S.C. § 47107(b)(2). When a use would be diversion of revenue but is grandfathered, the use is considered lawful revenue diversion. See Section VI, Prohibited Uses of Airport Revenue.

D. Airport Sponsor

The airport sponsor is the owner or operator of the airport that accepts Federal assistance and executes grant agreements or other documents required for the receipt of Federal assistance.

Section VI – Prohibited uses of Airport Revenue states in part:

B. Prohibited Uses of Airport Revenue

Prohibited uses of airport revenue include but are not limited to:

3. Use of airport revenues for general economic development.
8. Land rental to, or use of land by, the sponsor for nonaeronautical purposes at less than fair rental/market value, except to the extent permitted by Section VII.D of this policy.
9. Use of land by the sponsor for aeronautical purposes rent-free or for nominal rental rates, except to the extent permitted by Section VII.E of this policy.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**City of Arlington
Snohomish County
January 1, 2014 through December 31, 2014**

2014-002 The City's internal controls over accounting and financial reporting of the classification of cash and investments and bond refunding are inadequate to ensure budget compliance and accurate presentation of the financial statements.

Background

It is the responsibility of City management to design, implement and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Governmental Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses and significant deficiencies, defined in the Applicable Laws and Regulations section below, as a finding.

State law requires the City to adopt an appropriated budget. The City may amend the budget during the fiscal period to ensure the actual expenditures do not exceed the appropriated budget. It is the responsibility of City management to monitor and ensure compliance with the appropriated budget and state law.

Description of Condition

Our audit identified deficiencies in internal controls that represent a material weakness:

- The City was not in compliance with its approved budget. The City lacked the internal controls to ensure its bond refunding transactions were recorded in the City's financial system prior to preparing the financial statements.
- The City does not have adequate controls in place to ensure cash is correctly classified in accordance with the *Budgeting, Accounting and Reporting System (BARS)* manual.

Cause of Condition

According to the City, the cause of the errors was the result of inadequate internal controls and oversight during the eight month transition from its former finance director who left in September 2014 to its current finance director who began June 2015.

Effect of Condition

Inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies and other interested parties. We identified the following material error during our audit of the City's financial statements:

- The City did not record a bond refunding transaction in its financial system prior to year-end. The transaction increased revenues and expenditures which caused the City to exceed its budget in the general fund. As a result, the City did not comply and materially exceeded its 2014 final adopted budget in the general fund by \$6,615,975. The City also understated revenues and expenditures by \$6,742,049. The City corrected this misstatement.
- The City did not properly classify its cash and investment balances as reserved and unreserved in accordance with the BARS manual. As a result, the City misclassified its cash and investment fund balance in the amount of \$1,956,617. Specifically, the City misclassified \$97,199 as reserved which should have been classified as unreserved and \$1,859,418 as unreserved that should have classified as reserved. The City corrected this misstatement.

Although material errors were noted in the financial statements, at no time did we become aware of a loss of revenue to the City.

Recommendation

We recommend the City:

- Ensure all accounting transactions are entered into the financial system prior to creating the financial statements.
- Ensures the final review of the financial statements is sufficiently detailed to ensure accurate financial preparation and reporting.
- Ensures it monitors and complies with its approved budget.

City's Response

The City is aware of its responsibility to maintain internal controls over all City financial activities. The inadequate internal controls occurred during the eight month transition from our former finance director who left in September 2014 to our current finance director who began June 2015. It is the priority of the finance department to maintain high standards and accuracy, therefore the following procedures have been changed to prevent future errors: elimination of external spreadsheets to record financial data, consultation with other accounting professionals when unusual transactions occur, continuing education for finance department staff, and an enhanced financial statement review process.

The City recognizes the importance of maintaining adequate internal controls, and appreciates the input from the SAO to assist with better safeguarding of public assets.

Auditor's Remarks

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

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards, Section 265 as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a

reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

RCW 43.09.200 Local government accounting — Uniform system of accounting states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting, Accounting and Reporting System (BARS) Manual - Accounting, Accounting Principles and Internal Controls, Reserved and Unreserved Cash and Investments states:

There are often limitations on how all or a portion of a government's resources can be spent. Accordingly, the BARS manual requires beginning and ending cash and investments be classified as either reserved or unreserved. These classifications indicate "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent." The classifications reflect these limitations and inform management and financial statement users how much of the government's resources are reserved for a specific purpose or use and how much is freely available for spending.

BARS accounts 30810 and 50810 define the beginning and ending **reserved** cash and investments as *the amounts of cash and investments with specific purpose or use restrictions imposed on them by external parties (e.g., enabling legislation, grantors, creditors, etc.) or from formal internal commitments. Internal commitments are specific constraints imposed by the highest level of authority within the government (board of commissioners, city council, board of directors, board of supervisors, etc.) through the most binding formal action (ordinance, resolution) that requires a similar formal action on the same level to remove them.*

BARS accounts 30880 and 50880 define the beginning and ending **unreserved** cash and investments as *the amounts of cash and investments without any specific constraints imposed on use or only constrained by the government's informal or non-specific intent (constraints not meeting the definition of an external restriction or internal commitment)*. Any fund balance which is neither externally restricted nor internally committed is considered unreserved.

RCW 35A.33.120 Funds — Limitations on expenditures — Transfers and adjustments, states in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the code city, the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year, without regard to the individual items contained therein, except that this limitation shall not apply to wage adjustments authorized by RCW 35A.33.105; and
- (2) The unexpended appropriation balances of a preceding budget which may be carried forward from prior fiscal years pursuant to RCW 35A.33.150; and
- (3) Funds received from the sale of bonds or warrants which have been duly authorized according to law; and
- (4) Funds received in excess of estimated revenues during the current fiscal year, when authorized by an ordinance amending the original budget; and
- (5) Expenditures required for emergencies, as authorized in RCW 35A.33.080 and 35A.33.090.

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

**City of Arlington
Snohomish County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Arlington
Arlington, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Arlington, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 28, 2015.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-002 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-002.

CITY'S REPOSENSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**City of Arlington
Snohomish County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Arlington
Arlington, Washington

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

We have audited the compliance of the City of Arlington, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance

with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and

therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 that we consider to be significant deficiencies.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the 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 OMB Circular A-133. 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Arlington Snohomish County January 1, 2014 through December 31, 2014

Mayor and City Council
City of Arlington
Arlington, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Arlington, Snohomish County, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 25.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Arlington has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Arlington, for the year ended December 31, 2014, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Arlington, as of December 31, 2014, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 28, 2015

FINANCIAL SECTION

**City of Arlington
Snohomish County
January 1, 2014 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014
Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund
Beginning Cash and Investments				
30810	Reserved	2,208,427	136,421	-
30880	Unreserved	17,835,290	505,494	79,241
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	11,360,313	9,275,562	-
320	Licenses and Permits	421,470	421,470	-
330	Intergovernmental Revenues	5,974,766	640,268	377,005
340	Charges for Goods and Services	13,679,155	1,004,461	-
350	Fines and Penalties	359,593	228,519	-
360	Miscellaneous Revenues	4,713,754	168,739	35,688
Total Operating Revenues:		<u>36,509,051</u>	<u>11,739,018</u>	<u>412,693</u>
Operating Expenditures				
510	General Government	1,923,052	1,547,379	-
520	Public Safety	10,009,603	7,351,848	-
530	Utilities	6,791,729	45,018	-
540	Transportation	3,642,892	-	809,574
550	Natural and Economic Environment	866,748	760,543	-
560	Social Services	3,932	3,932	-
570	Culture and Recreation	924,635	542,497	-
Total Operating Expenditures:		<u>24,162,592</u>	<u>10,251,217</u>	<u>809,574</u>
Net Operating Increase (Decrease):		<u>12,346,459</u>	<u>1,487,801</u>	<u>(396,881)</u>
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	2,461,407	154,313	425
391-393	Debt Proceeds	8,615,777	7,889,863	-
397	Transfers-In	1,761,080	114,900	355,004
Total Nonoperating Revenues:		<u>12,838,263</u>	<u>8,159,076</u>	<u>355,429</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	2,171,650	160,799	-
591-593	Debt Service	12,670,408	8,760,603	-
594-595	Capital Expenditures	8,215,863	229,710	519
597	Transfers-Out	1,761,080	488,398	32,061
Total Nonoperating Expenditures:		<u>24,819,002</u>	<u>9,639,511</u>	<u>32,580</u>
Net Increase (Decrease) in Cash and Investments:		<u>365,722</u>	<u>7,367</u>	<u>(74,032)</u>
Ending Cash and Investments				
50810	Reserved	6,631,806	50,000	5,208
50880	Unreserved	13,777,632	599,282	-

The accompanying notes are an integral part of this statement.

107 Growth Managmt Fund	108 Emer Med Servcs Fund	109 Stream Corri Rest Fund	114 Lodging Tax Fund	116 Cemetery Fund	212 LID #21 Fund
-	-	-	-	-	-
1,829,337	137,651	37,899	59,715	58,086	40,093
-	-	-	-	-	-
-	1,416,160	-	111,427	-	-
-	-	-	-	-	-
-	71,658	-	-	-	-
158,769	1,079,552	-	-	230,508	-
-	-	-	-	-	164
14,360	50,906	792	607	605	74,982
173,129	2,618,277	792	112,034	231,113	75,146
-	-	-	-	-	-
-	2,590,117	-	-	-	-
-	-	3,633	-	254,792	-
-	-	-	-	-	-
-	-	-	106,205	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,590,117	3,633	106,205	254,792	-
173,129	28,160	(2,840)	5,829	(23,679)	75,146
626,731	627,162	-	-	12,226	-
-	-	-	-	-	-
-	-	-	-	-	-
626,731	627,162	-	-	12,226	-
629,666	626,772	-	-	-	-
-	177	-	-	-	-
-	2,872	-	-	268	-
461,998	160,194	-	-	15,092	60,000
1,091,664	790,015	-	-	15,359	60,000
(291,804)	(134,693)	(2,840)	5,829	(26,813)	15,146
1,537,533	-	-	65,544	-	-
-	2,957	35,058	-	31,274	55,239

The accompanying notes are an integral part of this statement.

303 REET 1 Fund	304 REET 2 Fund	305 Capital Facil/Bldg Fund	310 Transport Improv Fund	311 Park Improvement Fund	312 Library Capital Impr Fund
-	-	-	-	-	-
138,267	13,245	4	3,655	156,634	13,693
-	-	-	-	-	-
278,582	278,582	-	-	-	-
-	-	-	-	-	-
-	-	-	2,727,769	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,320	1,207	-	12,589	11,873	135
<u>279,901</u>	<u>279,789</u>	-	<u>2,740,358</u>	<u>11,873</u>	<u>135</u>
-	-	-	-	-	-
67,638	-	-	-	-	-
-	-	-	-	-	-
-	-	-	15,108	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>67,638</u>	<u>-</u>	<u>-</u>	<u>15,108</u>	<u>-</u>	<u>-</u>
<u>212,263</u>	<u>279,789</u>	-	<u>2,725,250</u>	<u>11,873</u>	<u>135</u>
-	-	-	1,297	-	-
-	-	-	-	-	-
-	28,503	72,000	431,148	30,850	-
-	<u>28,503</u>	<u>72,000</u>	<u>432,445</u>	<u>30,850</u>	<u>-</u>
-	-	-	1,297	-	-
51,600	290,075	-	-	152,000	-
2,500	-	72,000	2,665,552	47,253	-
132,000	-	-	-	-	-
<u>186,100</u>	<u>290,075</u>	<u>72,000</u>	<u>2,666,849</u>	<u>199,253</u>	<u>-</u>
<u>26,163</u>	<u>18,217</u>	-	<u>490,846</u>	<u>(156,530)</u>	<u>135</u>
164,431	31,462	-	-	-	-
-	-	4	494,502	104	13,829

The accompanying notes are an integral part of this statement.

316 Cemetery Cap Impr Fund	401 Water/Sewer Utility Fund	402 Airport Fund	412 Storm Water Mgmt Fund	501 Equip Rental M & O Fund	503 Equip Rental Replac Fund
-	1,501,946	342,314	-	-	-
5,607	11,913,820	1,225,205	414,841	121	1,193,577
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,698	1,247,610	908,758	-	-
-	10,288,057	5,525	888,189	-	-
-	105,748	21,957	3,205	-	-
55	139,708	3,037,083	7,047	7,181	10,278
55	10,535,211	4,312,175	1,807,198	7,181	10,278
-	-	-	-	-	-
-	-	-	-	-	-
-	6,017,522	-	470,765	-	-
-	-	1,965,625	-	509,585	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	6,017,522	1,965,625	470,765	509,585	-
55	4,517,689	2,346,550	1,336,433	(502,404)	10,278
-	533,165	467,760	-	981	27,921
-	-	546,345	-	-	179,569
-	-	-	-	501,303	227,372
-	533,165	1,014,105	-	502,284	434,862
-	4,100	400,545	348,472	-	-
-	2,751,371	662,462	2,120	-	-
-	2,031,370	1,767,926	844,715	-	549,577
-	108,565	145,182	118,904	-	5,425
-	4,895,406	2,976,114	1,314,210	-	555,002
55	155,448	384,539	22,222	(121)	(109,862)
-	3,901,946	629,814	-	-	-
5,662	9,669,267	1,322,246	437,065	1	1,083,714

The accompanying notes are an integral part of this statement.

504 P W Facilities M&O Fund	702 Cem Endowment Fund
-	227,745
9,106	-
-	-
-	-
-	-
-	-
8,325	15,768
-	-
1,136,245	2,355
<u>1,144,570</u>	<u>18,123</u>
375,673	-
-	-
-	-
343,000	-
-	-
-	-
382,138	-
<u>1,100,811</u>	<u>-</u>
43,759	18,123
9,426	-
-	-
-	-
<u>9,426</u>	<u>-</u>
-	-
-	-
1,602	-
33,262	-
34,864	-
<u>18,321</u>	<u>18,123</u>
-	245,868
27,428	-

The accompanying notes are an integral part of this statement.

City of Arlington
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	622 Cem Pre-Need Trust	680 Transportation Benefit District
308	Beginning Cash and Investments	20,356	20,356	-
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	661,607	5,522	656,085
380-390	Other Increases and Financing Sources	-	-	-
510-570	Expenditures	358,188	3,380	354,808
580-590	Other Decreases and Financing Uses	-	-	-
Net Increase (Decrease) in Cash and Investments:		303,420	2,142	301,278
508	Ending Cash and Investments	323,774	22,498	301,277

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

CITY OF ARLINGTON

Period Ending December 31, 2014

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The City reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Arlington was incorporated in 1903 and operates under the laws of the State of Washington applicable to a non-charter code city with a mayor-council form of government. The city is a general purpose government and provides police and fire protection, including emergency medical response services, engineering, street construction and maintenance, parks and recreation services, health and social services, a public library and general administrative services. In addition, the city owns and operates a cemetery, a water system, a sewer system, a storm water management system and an airport.

The City of Arlington reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

The accounts of the City of Arlington are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The city's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the city:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the city. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenues sources that are restricted or committed to expenditures for specific purposes of the city.

Debt Service Funds

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

Capital Projects Funds

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

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

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

Agency Funds

These funds are used to account for assets that the city holds for others in an agency capacity.

B. Basis of Accounting

As permitted by the State of Washington, the City of Arlington has elected to prepare these financial statements on a cash basis of accounting in accordance with provisions of Washington State statutes and the Budgeting, Accounting and Reporting System (BARS) as prescribed by the State Auditor's Office.

The cash basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the City also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The city adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budgets constitute the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

Non-expenditure type account numbers are used in some funds.

The appropriated and actual expenditures for the legally adopted budgets for 2014 are shown on the following page, which includes the final budget amendment adopted December 15, 2014. Subsequent to year end, an accounting error was found and corrected which did have an impact on final expenses. Please see further explanation in Note 9 – Other Disclosures.

Fund/Department	Final Appropriated Amounts *	Actual Expenses *	Variance
001 - General Fund			
General Fund	13,235,530.00	11,964,256.09	1,271,273.91
Program Develop Fund	43,100.00	39,222.09	3,877.91
Total 001 - General Fund	13,278,630.00	12,003,478.18	1,275,151.82
101 - Street Fund	939,444.00	842,154.31	97,289.69
107 - Growth Managmt Fund	1,130,000.00	1,091,663.99	38,336.01
108 - Emer Med Servcs Fund	3,406,395.00	3,380,132.27	26,262.73
109 - Stream Corri Rest Fund	7,000.00	3,632.50	3,367.50
114 - Lodging Tax Fund	114,000.00	106,205.30	7,794.70
116 - Cemetery Fund	273,962.00	270,151.48	3,810.52
212 - LID #21 Fund	60,000.00	60,000.00	
303 - REET 1 Fund	254,100.00	253,738.00	362
304 - REET 2 Fund	290,600.00	290,074.90	525.1
305 - Capital Facil/Bldg Fund	72,000.00	72,000.00	
310 - Transport Improv Fund	4,144,958.00	2,681,956.46	1,463,001.54
311 - Park Improvement Fund	202,000.00	199,253.09	2,746.91
316 - Cemetery Cap Impr Fund			
401 - Water/Sewer Utility Fund			
Water/Sewer Utility Fund	9,035,682.00	9,013,684.57	21,997.43
Water Improvement Fund	1,227,000.00	1,110,046.53	116,953.47
Sewer Improvement Fund	1,335,000.00	947,924.08	387,075.92
P W-Utilities Admin Fund	816,713.00	791,272.74	25,440.26
Total 401 - Water/Sewer Utility Fund	12,414,395.00	11,862,927.92	551,467.08
402 - Airport Fund			
Airport Fund	3,751,162.00	3,183,452.47	567,709.53
Airport Reserve Fund	195,000.00		195,000.00
Airport CIP (FAA) Fund	1,550,500.00	1,493,610.20	56,889.80
Total 402 - Airport Fund	5,496,662.00	4,677,062.67	819,599.33
412 - Storm Water Mgmt Fund			
Storm Water CIP Fund	2,216,000.00	1,145,305.78	1,070,694.22
Storm Water Mgmt Fund	815,148.00	799,668.58	15,479.42
Total 412 - Storm Water Mgmt Fund	3,031,148.00	1,944,974.36	1,086,173.64
501 - Equip Rental M & O Fund	521,972.00	509,584.94	12,387.06
503 - Equip Rental Replac Fund	576,481.00	555,002.38	21,478.62
504 - P W Facilities M&O Fund	1,173,663.00	1,135,675.14	37,987.86
622 - Cem Pre-Need Trust	10,100.00	3,380.00	6,720.00
680 - Transportation Benefit District	468,500.00	354,808.49	113,691.51
702 - Cem Endowment Fund	2,500.00		2,500.00
Totals	47,868,510.00	42,297,856.38	5,570,653.62

(*Includes Non-Expenditures. These balances reflect the approved appropriations and expenses as of 12/31/2014, however subsequent to year end an accounting error was found which impacted final appropriations and actual expenses.) See Note 9 for further information on the accounting error.

Budgeted amounts are authorized to be transferred between departments within any fund or object classes within a department; however, any revisions that alter the total expenditures of a fund, or affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. The City Council also approves all expenditures for payroll and claims.

The total for all funds on Schedule C-4 is different from the above Actual Expenditures Totals due to consolidating the Program Development Fund with the General Fund. The following funds were consolidated with the Water/Sewer Fund - Water Capital Improvement Fund, Sewer Capital Improvement Fund, Public Works Utility Administration Fund, Wastewater Treatment Plant Improvement and Expansion Fund, and the Water/Sewer Revenue Bond Redemption Fund. The Surface Water Capital Improvement Fund was consolidated with the Storm Water Management Fund. The Airport Reserve Fund and the Airport Capital Improvement Funds were consolidated with the Airport Fund. Interfund transfers were also eliminated within the enterprise funds as required (Water, Sewer, Airport and Storm water Management Funds and their related capital funds).

D. Cash

It is the City of Arlington's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The city's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

F. Investments See Note #2

G. Derivatives and Similar Transactions

None.

H. Capital Assets

Capital Assets are assets with an initial cost of more than \$5,000 and an estimated useful life in excess of 3 years. The capital assets of the City of Arlington and are recorded as expenditures when purchased.

I. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. (American Federation of State, Counties and Municipal Employees (AFSCME) Union, the Arlington Police Officer's Association (APOA) Union Employees, and Regular Non-represented employees)

Regular Full-Time, (AFSCME) and (APOA) employees may accumulate Sick leave up to 1000 hours. The local International Association of Fire Fighters (IAFF) Union employees may accumulate Sick Leave up to 1,440 hours.

Upon termination of employment or retirement, Regular, AFSCME Union and APOA Union employees shall be paid one third (1/3) of unused accrued sick leave up to 240 hours. In no event shall Regular, AFSCME or APOA Employee's combined sick leave and vacation benefits payable upon termination/retirement exceed 240 hours.

The IAFF Union employees, upon separation from the city, are entitled to receive up to 260 hours of vacation and up to 350 hours of unused sick leave.

J. Debt Service Requirements-See Note #5

K. Other Financing Sources or Uses

Interfund transactions are classified as follows:

Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the city.

Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses."

Contributions to the capital of enterprise or internal service funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.

Non-Revenues and Non-Expenditures

The city's non-revenues and non-expenditures consist of Interfund loan proceeds and repayments, agency collections and disbursements, investment proceeds and purchases, prior period corrections, residual equity transfers - in or out.

L. Risk Management

The City of Arlington is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 175 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. 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 are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

M. Reserved Fund Balance

Beginning and ending cash and investments are reported as reserved when subjected to restrictions on use imposed by external parties or due to internal commitments established by City ordinance or resolution.

The City reported the following ending cash/investment balances as reserved based on external and/or internal commitments;

<u>Fund</u>	<u>Purpose</u>	<u>12/31/14 Balance</u>
Street Fund 101	Street repair/construction	\$5,208.47
Growth Fund 107	Infrastructure improvements	\$1,537,532.78
Lodging Tax Fund 114	Tourism promotion	\$65,544.33
REET 1 Fund 303	Capital improvement	\$164,430.71
REET 2 Fund 304	Capital improvement	\$31,461.90

Water/Sewer Fund 401	Debt reserves	\$3,901,945.57
Airport Fund	Debt reserves/FAA projects	\$629,813.89
Cemetery Endowment	Preservation of cemetery	\$245,868.12

NOTE 2 - INVESTMENTS

The city investments are either insured, registered or held by the city or its agent in the city's name. The investments are presented at cost.

Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	<u>City's own Investments</u>	<u>Investments held by City as an agent for other local governments, individuals or private organizations</u>		<u>Balance</u>
L.G.I.P.	\$ 3,508,331	\$ -	\$ -	\$ 3,508,331
U.S. Government Securities	10,991,260	-	-	10,991,260
Municipal Securities	1,822,891	-	-	1,822,891
Certificates of Deposit	2,050,275	-	-	2,050,275
Total	<u>\$ 18,372,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,372,757</u>

NOTE 3 - PROPERTY TAXES

The Snohomish County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are usually distributed by the County twice each month, normally around the 10th and 20th of each month.

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

The city's regular levy for 2014 was \$1.3746866 per \$1,000 on an assessed valuation of \$1,816,314,125 for a total regular levy of \$2,496,863. The city also levied \$0.50 per \$1,000 for Emergency Medical Services (EMS) for a total levy of \$908,157. (per the Snohomish County Assessor's Office Annual Report for 2014 Taxes)

NOTE 4 - INTERFUND LOANS AND ADVANCES

In 1999 the City of Arlington purchased 24 acres of land from the City's municipal airport, to be used for parks and recreation. A 50 year repayment schedule was established. Included in the authorizing resolution were the terms of repayment. The 50 year payment terms call for interest to

be determined and adjusted at least once every five years to not less than the US Treasury “Current Value of Funds Rate (CVFR)”. The payments began in January 2000 at the interest rate of 5.20%. In 2014, the CVFR interest rate was 1%.

Prior to the formation of the Storm water Fund, Storm water operating expenditures were paid out of the General Fund with the expectation that those costs would be reimbursed. The total amount paid from 2003 to 2006 by the General Fund totaled \$553,928. In 2008, \$50,000 was reimbursed from the Storm water Fund to the General Fund. In 2009, Resolution 789 was passed to allow the Water Capital Improvement Fund to reimburse the General Fund the remainder of what was owed, and also to authorize the Storm water Fund, beginning in 2010, to make payments of not less than \$50,000 per year to the Water Improvement Fund, until the entire remaining amount is reimbursed. Resolution 2013-007 was passed on March 18, 2013 to authorize interest of 0.5% to be paid on the loan.

In September, 2013, the Storm water Capital Improvement Fund paid for costs related to the Prairie Creek Drainage Phase 1 Improvements. The Storm water Capital Improvement Fund did not have sufficient funds at the end of September to cover those costs until the project is complete and grant funding is received. Resolution No. 2013-023 was passed on November 4, 2013 allowing for a short-term interfund loan from the Water Capital Improvement Fund. Interest will be paid on the loan tied to the monthly Local Government Investment Pool rate managed by the State Treasurer’s Office.

The following table displays interfund loan activity during 2014.

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Loan Balance 01/01/2014</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Principle Balance 12/31/2014</u>
General	Airport	\$2,196,434	\$ 0	\$49,996	\$2,146,438
Storm water	Water CIP	305,698	0	48,472	257,226
Storm water CIP	Water CIP	450,000	0	300,000	150,000

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedules of Long-term Liabilities (Schedule 9) provides more details of the outstanding debt and liabilities of the city and summarizes the city’s debt transactions for the year ended December 31, 2014. In August 2014, the City refunded its 2004 LTGO (police station) and it’s 2009 LTGO (airport expansion) bonds in order to reduce interest rates and realize long term savings. The new debt is reflected on the Schedule as 2014 LTGO – Refunding 2004 and 2014 LTGO Refunding 2009. The amount of the 2014 bond issue was \$7,875,000 broken out as follows; \$7,365,000 for the police station and \$510,000 for the airport expansion.

The debt service requirements for general obligation bonds, revenue bonds and other loans (not including interfund loans) and obligations, including both principle and interest, are as follows:

	General Obligation Debt	Revenue Bonds	Other Debt	Total Debt
2015	1,257,491	638,185	2,353,374	4,249,050
2016	1,257,141	642,185	2,348,102	4,247,429
2017	1,269,441	495,185	2,250,060	4,014,687
2018	1,265,045	30,715	2,248,729	3,544,489
2019 - 2023	5,763,116	-	11,381,045	17,144,162
2024 - 2028	4,756,069	-	10,444,403	15,200,472
2029 - 2033	3,501,100	-	3,797,494	7,298,594
2034 - 2038	665,600	-	1,240,750	1,906,350
2039 - 2040	-	-	310,186	310,186
Totals	<u>\$ 19,735,004</u>	<u>\$ 1,806,270</u>	<u>\$ 36,374,143</u>	<u>\$ 57,915,417</u>

NOTE 6 - PENSION PLANS

Substantially all city full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) Plan 2 or Plan 3 or the Law Enforcement Officers and Fire Fighters (LEOFF) Plan 2 retirement plans, administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the city's financial statements. Contributions to the systems by both employees and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

NOTE 7 – JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

SNOPAC

The City of Arlington and other Police and Fire entities (currently 37) operate jointly the Snohomish County Police Staff and Auxiliary Services Center, (SNOPAC). SNOPAC, 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, the 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 SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC 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 SNOPAC, any money in the possession of SNOPAC or the Board of Directors after payment of all costs, expenses and charges validly incurred under this Agreement shall be returned to the parties to this Agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the city's share was \$431,878 on December 31, 2014.

Complete financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

AHA-Alliance for Housing Affordability

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

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

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

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

Fiscal Year	AHA's Total Fiscal Year Budget	Arlington's Share of Budget	Arlington's Share as % of Total AHA Budget
7/1/XX – 6/30/XX			
2014	\$92,543	\$1,074	1.16%

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 Sonja Springer, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 (or email:

sspringer@ci.mlt.wa.us) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204.

Transportation Benefit District

On April 1, 2013, the Arlington City Council passed Ordinance #2013-005, which created a Transportation Benefit District (TBD). The TBD is a quasi-municipal corporation and independent taxing district created for the sole purpose of acquiring, constructing, improving, providing and funding transportation improvements within the City limits of Arlington. It has the authority to impose certain taxes and fees, either through a vote of the people or Board action, for transportation purposes. The TBD is governed by members of the Arlington City Council acting as the District's Board of Directors. The Mayor serves as Chair of the Board.

In August 2013, the voters passed a ballot measure to enact a .2% (two tenths of one percent) sales and use tax increase within the City limits. The additional sales tax collected in 2014 was \$654,886 to be used to support transportation projects within the City of Arlington.

The TBD Board executed an interlocal agreement with the City to make the most efficient use of their powers by enabling them to cooperate on the basis of mutual advantage and to help manage and operate the District and to make any transportation improvements consistent with existing state, regional and local transportation plans.

The TBD is a separate legal entity and is treated as an agency fund on the City's annual financial report, it also files a separate annual financial report with the State Auditor each year.

NOTE 8 – HEALTH & WELFARE

The City of Arlington 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, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the

assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through 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. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office

NOTE 9 – OTHER DISCLOSURES

Other Post-Employment Benefits (OPEB)

The City has a commitment to pay for post-employment benefits for employees that belong to the Law Enforcement Officers and Fire Fighters Pension (LEOFF) Plan 1 (commonly referred to LEOFF 1). These benefits, per the Revised Code of Washington Chapter 41.26.150 include the

payment of medical costs and nursing care. Six LEOFF 1 retirees received benefits during 2014 and a total of \$48,153 was paid out for those benefits during the year.

City of Arlington Transportation & Public Works Construction Commitment

The City of Arlington Transportation and Public Works Funds had no active construction projects as of December 31 2014.

Arlington Municipal Airport Construction Commitment

The City of Arlington Airport had no active construction projects as of December 31, 2014.

Subsequent Event

In July 2015, the City issued \$1,500,000 in LTGO bonds for the purchase of two fire apparatus.

Accounting Error

In 2014 the City took steps to increase its bond rating, reduce bond interest costs and retire interest only debt in favor of debt that can be reduced through making principal payments. As a means to achieve these efforts, the City issued refunding bonds in August 2014.

Shortly after the bond issuance, the finance director retired. At that time, it was customary practice to record various types of financial data (including debt) on spreadsheets that were external to the accounting system. The spreadsheets were then used to record the data into the accounting system.

During the retirement transition, the bond issuance was overlooked and not recorded into the accounting system. The transaction should have been recorded to reflect an increase in revenues representing bond proceeds (the refunding bonds) and a corresponding increase in expenses representing the bonds that were paid off (the refunded bonds).

The accounting error resulted in revenues and expenditures exceeding original budget appropriations in the general fund. The accounting error did not impact ending fund balances nor did it negatively impact any other funds. Please refer to the chart for illustration of the general fund’s beginning and ending fund balance before and after the accounting error;

ORIGINAL			
Beg. Fund Balance	Revenues	Expenditures	Ending Fund Balance
505,494	13,106,044	(13,109,456)	502,082
CORRECTED			
505,494	19,848,093	(19,851,505)	502,082

This chart shows the difference between final approved appropriations and actual expenses after the accounting error was recorded;

ORIGINAL		
Final Appropriations	Actual Expenses	Variance
13,235,530	11,964,256	1,271,274
CORRECTED		
13,235,530	19,851,505	(6,615,975)

The error was found during preliminary audit procedures and immediately corrected, however because the error was found subsequent to year end, a legal budget amendment could not be adopted in a timely manner. State statute requires all budget amendments be approved before fiscal year end. The error will most likely result in a financial statement finding once the audit is complete.

It is the priority of the finance department to maintain high standards and accuracy, therefore the following procedures have been changed to prevent future errors; elimination of external spreadsheets to record financial data, consultation with other accounting professionals when unusual transactions occur, continuing education for finance department staff, and an enhanced financial statement review process.

**City of Arlington
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	2004 LTGO - Police Station	12/1/2034	7,700,000	-	7,700,000	-
251.11	2007 LTGO - N Olympic Ave	12/1/2027	2,825,000	-	170,000	2,655,000
251.11	2010 LTGO - Refunding/Fire St.	12/1/2030	3,825,000	-	350,000	3,475,000
251.11	2010 LTGO - Refunding/Loan	12/1/2030	300,000	-	40,000	260,000
251.11	2014 LTGO-Refunding 2004 (Police Station)	12/1/2034	-	7,385,000	100,000	7,285,000
251.11	2014 LTGO-Police Vehicles	10/1/2024	-	180,819	-	180,819
263.61	Graafstra Note-Park Land	4/1/2040	3,200,000	-	-	3,200,000
259.11	Compensated Absences - General		1,014,197	-	89,848	924,349
263.51	Lease - Servers - 810-6523252-002	8/1/2015	4,002	-	1,954	2,048
263.51	Lease - Servers - 810-6523252-001	4/1/2015	9,177	-	4,472	4,705
263.51	Lease - Computers - 811-088909055-001	4/1/2015	1,393	-	1,393	-
263.51	Lease - Computers - 810-6523252-003	2/1/2018	-	78,824	17,241	61,583
263.51	Lease - Police Vehicles	11/1/2016	70,938	-	17,766	53,172
251.19	2009 LTGO - Airport Expans	12/1/2024	555,975	-	555,975	-
251.19	2014 LTGO-Refunding 2009 (Airport Expans)	12/1/2034	-	510,000	25,000	485,000
Total General Obligations:			19,505,682	8,134,643	9,073,649	18,566,676
Revenue Obligations						
252.11	2007 W/S Refunding	12/1/2017	1,995,000	-	500,000	1,495,000
252.11	2003 Revenue Bonds-Airport	8/1/2018	211,259	-	41,382	169,877
263.82	1996 PWTF Loan-Wtr Treatm Plant	7/1/2016	272,410	-	90,803	181,607
263.82	2006 PW Loan WWTP - PW-06-962-002	7/1/2026	5,116,108	-	393,547	4,722,561
263.82	2007 PW Loan WWTP - PR07-951-001	7/1/2027	736,840	-	52,632	684,208
263.82	2008 PW Loan WWTP - PC08-951-001	7/1/2028	7,941,176	-	529,412	7,411,764
263.82	Recovery Act Loan-DOE Loan L1000024	7/1/2029	5,304,440	-	236,155	5,068,285
263.82	Base Revolving Fund Loan-DOE Loan L1000025	7/1/2029	8,633,770	-	384,378	8,249,392
259.12	Compensated Absences - Proprietary		221,352	-	10,268	211,084
Total Revenue Obligations:			30,432,355	-	2,238,576	28,193,779
Total Liabilities:			49,938,037	8,134,643	11,312,225	46,760,455

City of Arlington
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Wa State Traffic Safety Comm)	State and Community Highway Safety	20.600	DUI	1,283	-	1,283	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Wa Assc of Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	N/A	2,500	-	2,500	
				3,783	-	3,783	
Other Programs							
Criminal Division, Department Of Justice	Joint Law Enforcement Operations (JLEO)	16.111	M-14-D86-O-000083	-	3,452	3,452	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	N/A	-	3,181	3,181	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0002-023-2012	-	264,948	264,948	
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0002-024-2013	-	857,034	857,034	
				-	1,121,982	1,121,982	
			Total CFDA 20.106:				
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Wa State Traffic Safety Comm)	National Priority Safety Programs	20.616	Target Zero	5,474	-	5,474	

Region 10, Environmental Protection Agency (via Wa State Dept of Ecology)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1300130	16,858	-	16,858
Department Of Homeland Security (via Sno County State of WA Dept of Finance)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	OSO Land Slide	205,822	-	205,822
Department Of Homeland Security (via State WA Emergency Management Div)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4168-DR-WA	4,154	-	4,154
Department Of Homeland Security (via State WA Emergency Management Div)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4056-DR-WA	250	-	250
Total CFDA 97.036:				210,226	-	210,226
Total Federal Awards Expended:				236,341	1,128,615	1,364,956

CITY OF ARLINGTON, SNOHOMICH COUNTY, WASHINGTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Cities financial statement. The city uses the cash basis of accounting.

NOTE 2 – FEMA PAYMENT

Final payment from 2012-FEMA Storm Grant, approved 2014.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER OMB CIRCULAR A-133**

**City of Arlington
Snohomish County
January 1, 2014 through December 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Arlington.

Finding ref number: 2014-001	Finding caption: The City’s internal controls were not adequate to ensure Airport revenues were not diverted to support general government activities and that late fees were assessed in accordance with lease agreements.
Name, address, and telephone of auditee contact person: Kristin Garcia, Finance Director 238 N. Olympic Arlington, WA 98223 (360) 403-3431	
Corrective action the auditee plans to take in response to the finding: (If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence). The City of Arlington has instituted the following to address the issue outlined in the finding: <ul style="list-style-type: none"> - Reviewed and analyzed usage of internal office space at the Arlington Municipal Airport office and implemented an appropriate charge to the Community & Economic Development Department for the space it utilizes. This has been corrected in the 2015 budget and will continue to be charged in future budget years as required. - Development of a tracking database for all Airport leases to ensure all leases are up to date The City of Arlington will institute the following to address the issue outlined in the finding: <ul style="list-style-type: none"> - The Airport staff will be working closely with the city’s Finance Department to complete: <ul style="list-style-type: none"> o accurate airport billing and collection services o internal audits and monitoring for lease compliance o grant management o establishing and updating Airport processes and procedures for file management and internal controls o Correcting the financial software system to accurately apply late fees to the leases. o Implementation of an online payment system to create additional payment options for customers 	

Anticipated date to complete the corrective action: December 31, 2016

Finding ref number: 2014-002	Finding caption: The City's internal controls over accounting and financial reporting of the classification of cash and investments and bond refunding are inadequate to ensure budget compliance and accurate presentation of the financial statements.
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Name, address, and telephone of auditee contact person:
Kristin Garcia, Finance Director
238 N. Olympic
Arlington, WA 98223
(360) 403-3431

Corrective action the auditee plans to take in response to the finding:
(If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence).
The City of Arlington will institute the following to address the issue outlined in the finding:

- Elimination of external spreadsheets to record financial data
- Consultation with other accounting professionals when unusual transactions occur
- Continuing education for finance department staff
- Enhanced financial statement review process

Anticipated date to complete the corrective action: May 31, 2016

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov