



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements Audit Report

# City of Snohomish

Snohomish County

For the period January 1, 2015 through December 31, 2015

Published December 8, 2016

Report No. 1018088





## Washington State Auditor's Office

December 8, 2016

Council  
City of Snohomish  
Snohomish, Washington

### Report on Financial Statements

Please find attached our report on the City of Snohomish's financial statements.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Snohomish  
Snohomish County  
January 1, 2015 through December 31, 2015**

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Snohomish. The State Auditor's Office has reviewed the status as presented by the City.

<b>Audit Period:</b> 1/1/14 – 12/31/14	<b>Report Ref. No.:</b> 1015268	<b>Finding Ref. No.:</b> 2014-001	<b>CFDA Number(s):</b> 20.205
<b>Federal Program Name and Granting Agency:</b> Highway Planning and Construction – U.S. Department of Transportation, Federal Highway Administration		<b>Pass-Through Agency Name:</b> Department of Transportation	
<b>Finding Caption:</b> The City does not have adequate internal controls in place to ensure compliance with federal cost principles and reporting requirements.			
<b>Background:</b> The City's Engineering Division relied on the review performed by the Washington State Department of Transportation's Northwest Region Local Program's Engineer to determine if federal reimbursement requests were accurate for the Highway Planning and Construction grant provided to the City. The City did not have an effective review process for the Federal Aid Progress Billings to ensure requests were accurate, complete, adequately supported, and in compliance with OMB Circular A-87 Cost Principles. This caused the City to over claim federal expenditures requested for reimbursement during fiscal year 2014 in the amount of \$125,923 which was previously reimbursed through the State Transportation Improvement Board. The City's use of the State Transportation Improvement Board match was based on the project as a whole, rather than what was allowable when matched with federal funds for the fiscal year under audit			
<b>Status of Corrective Action:</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			

**Corrective Action Taken:**

*Both the Project Manager and the City Engineer review and sign each proposed reimbursement. In addition, whenever the City receives more than one grant from two different agencies for one project, the project manager submits the proposed reimbursement to both the Public Works Director and the Finance Director for review. If required, the Directors contact both agency managers to confirm there are no conflicts.*

**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 Snohomish  
Snohomish County  
January 1, 2015 through December 31, 2015**

Council  
City of Snohomish  
Snohomish, 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 Snohomish, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 17, 2016.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

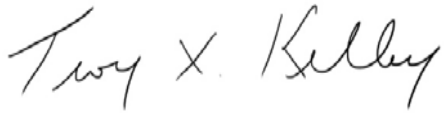
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

November 17, 2016



# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Snohomish Snohomish County January 1, 2015 through December 31, 2015**

Council  
City of Snohomish  
Snohomish, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the City of Snohomish, Snohomish County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 13.

#### **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 Snohomish 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 Snohomish, for the year ended December 31, 2015, 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 Snohomish, as of December 31, 2015, 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**

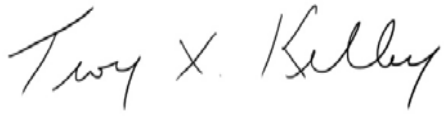
### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

November 17, 2016

## **FINANCIAL SECTION**

**City of Snohomish  
Snohomish County  
January 1, 2015 through December 31, 2015**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2015  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015  
Notes to Financial Statements – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2015

**City of Snohomish**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>102 Streets</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	12,262,291	-	-
30880	Unreserved	2,535,877	1,294,082	52,866
388 & 588	Prior Period Adjustments, Net	-	-	-
<b>Operating Revenues</b>				
310	Taxes	6,937,895	6,362,265	-
320	Licenses and Permits	348,733	338,913	-
330	Intergovernmental Revenues	1,271,212	195,191	195,337
340	Charges for Goods and Services	13,914,914	1,795,365	-
350	Fines and Penalties	103,639	72,507	-
360	Miscellaneous Revenues	148,014	32,658	3,314
Total Operating Revenues:		22,724,406	8,796,898	198,651
<b>Operating Expenditures</b>				
510	General Government	2,644,250	2,032,522	-
520	Public Safety	3,588,882	3,588,882	-
530	Utilities	5,751,918	-	-
540	Transportation	2,216,119	-	895,651
550	Natural and Economic Environment	528,703	528,703	-
560	Social Services	-	-	-
570	Culture and Recreation	805,552	717,693	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		15,535,423	6,867,800	895,651
Net Operating Increase (Decrease):		7,188,982	1,929,098	(697,000)
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	931,343	170	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	915,233	40,000	725,000
Total Nonoperating Revenues:		1,846,576	40,170	725,000
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	2,658,631	-	-
594-595	Capital Expenditures	3,567,597	924,694	-
597	Transfers-Out	915,233	755,233	5,000
Total Nonoperating Expenditures:		7,141,461	1,679,927	5,000
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>1,894,097</b>	<b>289,341</b>	<b>23,000</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	13,919,206	-	-
5088000	Unreserved	2,773,061	1,583,424	75,865
<b>Total Ending Cash and Investments</b>		<b>16,692,267</b>	<b>1,583,424</b>	<b>75,865</b>

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

<b>104 Park Impact Fee</b>	<b>107 Visitor Promotion</b>	<b>108 PBIA</b>	<b>113 Police Operational Reserve</b>	<b>117 Real Estate Excise Tax</b>	<b>125 Street Impact Reserve</b>
179,702	12,573	46,532	102,699	516,212	376,228
-	-	-	-	-	-
-	-	-	-	-	-
-	8,744	-	-	565,501	-
-	-	-	-	-	-
-	-	-	-	-	-
70,314	-	-	-	-	35,550
-	-	-	31,131	-	-
233	14	22,267	120	739	403
<u>70,547</u>	<u>8,758</u>	<u>22,267</u>	<u>31,251</u>	<u>566,240</u>	<u>35,953</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	10,264	34,000	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>10,264</u>	<u>34,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>70,547</u>	<u>(1,506)</u>	<u>(11,733)</u>	<u>31,251</u>	<u>566,240</u>	<u>35,953</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	140,000	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,000</u>	<u>-</u>
<u>70,547</u>	<u>(1,506)</u>	<u>(11,733)</u>	<u>31,251</u>	<u>426,240</u>	<u>35,953</u>
250,249	11,067	34,799	133,950	942,452	412,181
-	-	-	-	-	-
<u>250,249</u>	<u>11,067</u>	<u>34,799</u>	<u>133,950</u>	<u>942,452</u>	<u>412,181</u>

The accompanying notes are an integral part of this statement.

<b>205 Debt Service Fund</b>	<b>310 Municipal Capital Projects</b>	<b>311 Street Improvements</b>	<b>401 Water Utility</b>	<b>402 Wastewater Utility</b>	<b>403 Solid Waste</b>
13,012	215,524	1,033,558	1,917,852	6,147,650	25,921
-	-	-	-	-	-
-	-	-	-	-	-
1,385	-	-	-	-	-
-	-	-	5,470	4,350	-
-	-	821,296	-	-	-
-	-	160,000	2,610,027	4,852,595	1,937,996
-	-	-	-	-	-
32	907	763	66,598	16,739	111
<u>1,417</u>	<u>907</u>	<u>982,059</u>	<u>2,682,095</u>	<u>4,873,684</u>	<u>1,938,108</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,877,461	1,841,800	1,945,640
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,877,461</u>	<u>1,841,800</u>	<u>1,945,640</u>
<u>1,417</u>	<u>907</u>	<u>982,059</u>	<u>804,634</u>	<u>3,031,884</u>	<u>(7,532)</u>
-	-	8,541	289,212	633,420	-
-	-	-	-	-	-
80,233	50,000	-	-	20,000	-
<u>80,233</u>	<u>50,000</u>	<u>8,541</u>	<u>289,212</u>	<u>653,420</u>	<u>-</u>
-	-	-	-	-	-
80,658	-	-	468,205	2,109,768	-
-	296,624	1,078,875	127,256	983,628	-
-	-	-	5,000	-	-
<u>80,658</u>	<u>296,624</u>	<u>1,078,875</u>	<u>600,462</u>	<u>3,093,396</u>	<u>-</u>
<b>992</b>	<b>(245,717)</b>	<b>(88,275)</b>	<b>493,385</b>	<b>591,908</b>	<b>(7,532)</b>
14,005	(30,193)	945,283	2,411,236	6,739,557	18,388
-	-	-	-	-	-
<u>14,005</u>	<u>(30,193)</u>	<u>945,283</u>	<u>2,411,236</u>	<u>6,739,557</u>	<u>18,388</u>

The accompanying notes are an integral part of this statement.



<b>404 Stormwater Utility</b>	<b>501 City Shop</b>	<b>502 Information Services</b>	<b>503 Self- insurance Fund</b>	<b>505 Equipment Replacement</b>
1,674,828	-	-	-	-
-	634,121	336,695	12,297	205,817
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
59,387	-	-	-	-
1,193,723	788,326	339,251	5,095	126,672
-	-	-	-	-
1,940	614	346	10	208
1,255,050	788,940	339,597	5,105	126,880
-	170,655	428,310	12,763	-
-	-	-	-	-
87,016	-	-	-	-
645,111	611,560	-	-	63,795
-	-	-	-	-
-	-	-	-	-
-	-	-	-	43,595
-	-	-	-	-
732,127	782,215	428,310	12,763	107,391
522,923	6,725	(88,714)	(7,658)	19,490
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
156,520	-	-	-	-
5,000	5,000	-	-	-
161,520	5,000	-	-	-
<b>361,403</b>	<b>1,725</b>	<b>(88,714)</b>	<b>(7,658)</b>	<b>19,490</b>
2,036,231	-	-	-	-
-	635,846	247,981	4,639	225,306
<b>2,036,231</b>	<b>635,846</b>	<b>247,981</b>	<b>4,639</b>	<b>225,306</b>

The accompanying notes are an integral part of this statement.

**City of Snohomish**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>602 Miller Library Trust</b>	<b>604 Carnegie Restoration Fund</b>	<b>677 Transportation Bene District</b>
308	Beginning Cash and Investments	662,783	5,763	20,807	636,213
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	862,815	6	16,455	846,354
380-390	Other Increases and Financing Sources	-	-	-	-
510-570	Expenditures	162,596	-	2,596	160,000
580-590	Other Decreases and Financing Uses	-	-	-	-
Net Increase (Decrease) in Cash and Investments:		700,219	6	13,859	686,354
508	Ending Cash and Investments	1,363,003	5,769	34,667	1,322,568

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

## **Notes to the Financial Statements For the Year Ended December 31, 2015**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Snohomish was incorporated on June 30, 1890 and operates under the laws of the State of Washington, applicable to a Category II city, with a Council/Manager form of government. The City is a general-purpose government providing public safety, fire prevention, street improvements, parks and recreation, municipal utilities (water-sewer-storm water-solid waste) and general administrative services. The City of Snohomish uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

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

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

#### **a. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund 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 (Current Expense) Fund**

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Project Funds

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

## PROPRIETARY FUND TYPES

Enterprise Funds

These funds account for operations that provide goods and services to the general public and are supported primarily through user fees and are restricted, committed, assigned or unassigned for the operations of municipal water / sewer / storm water / solid waste utility enterprises.

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**

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 budget appropriations as required by state law.

In accordance with state law, the City also recognizes expenditures paid during the twenty day period after the close of the fiscal year for claims incurred during the previous period. These expenditures are recorded as liability accounts, such as warrants payable or benefits payable and are year-end reconciling items where supporting documentation identifies the differences within the financial statement.

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 the General Fund (Current Expense), Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Proprietary Funds, and Trust and Agency Funds. Annual appropriated budgets are adopted at the fund level and lapse at the fiscal period end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follows:

City of Snohomish  
Final Appropriations vs. Actual Expenditures  
By Fund as of December 31, 2015

Fund/Department	Final Appropriation	Actual Expenditures	Variance	Notes
<b>General Fund</b>				
City Council	141,092	145,979	(4,887)	Professional Services-Legal exceeded budget
City Manager	1,032,286	981,377	50,910	Cost Allocation Charges and Insurance premiums exceeded budget
Support Services-Finance	574,325	566,290	8,035	Personnel costs under budget
Law Enforcement	3,695,729	3,789,672	(93,944)	Cost Allocation Charges exceeded budget
Planning & Permitting	540,341	519,603	20,738	Personnel costs under budget
Public Works-Parks	726,513	652,245	74,269	Cost Allocation Charges exceeded budget
Public Works-Engineering	996,778	924,694	72,084	Cost Allocation Charges and Professional Services expenditures under budget
Non-Departmental	204,474	212,634	(8,160)	Cost Allocation Charges exceeded budget
Transfers-Out	755,233	755,233	-	Transfers-Out at budget
<b>Total General Fund</b>	<b>8,666,771</b>	<b>8,547,727</b>	<b>119,044</b>	
<b>Streets Fund</b>	1,039,525	900,651	138,874	Repair and annual maintenance not completed in fiscal year
<b>Park Impact Fee Fund</b>	-	-	-	No appropriations allocated
<b>Visitor Promotion Fund</b>	11,200	10,264	936	
<b>PBIA Fund</b>	23,000	34,000	(11,000)	Reserves used for additional program awards
<b>Police Seizures Fund</b>	40,000	-	40,000	No appropriations expended
<b>REET Fund</b>	140,000	140,000	-	Transfers-out as allocated
<b>Traffic Impact Fee Fund</b>	-	-	-	No appropriations allocated
<b>Debt Service Fund</b>	80,733	80,658	76	Debt service payments as obligated
<b>Municipal Capital Project Fund</b>	228,000	296,624	(68,624)	In-house engineering costs allocated via cost allocation plan
<b>Street Capital Project Fund</b>	881,000	1,078,875	(197,875)	Overlay construction costs over budget
<b>Water Utility Fund</b>	2,991,642	2,477,923	513,719	Capital projects delayed
<b>Wastewater Utility Fund</b>	5,952,852	4,935,196	1,017,656	Capital projects delayed
<b>Solid Waste Fund</b>	1,921,997	1,945,640	(23,643)	Cost Allocation charges under budget, Recycling Services over budget
<b>Stormwater Fund</b>	1,232,877	893,647	339,230	Capital projects delayed
<b>Fleet/Facilities Fund</b>	903,501	787,215	116,286	Repair and annual maintenance not completed in fiscal year
<b>Information Services Fund</b>	531,846	428,310	103,536	Professional Services under budget, Training under budget, Repairs & Maintenance under budget
<b>Self-Insurance Fund</b>	50,000	12,763	37,237	Unemployment Compensation under budget
<b>Equipment Replacement Fund</b>	130,000	107,391	22,609	Vehicle purchase delayed
<b>Carnegie Restoration Fund</b>	3,000	2,596	404	N/A

Revisions that alter the total expenditures of a fund, such as capital project expenditures or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

**d. Cash and Investments**

See Note 2 - *Deposits and Investments*

**e. Capital Assets**

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

**f. Compensated Absences**

Annual leave may be accumulated up to 30 days and is payable upon separation or retirement. Payments are recognized as expenditures when paid.

**g. Long Term Debt**

See Note 5 - *Debt Service Requirements*

**h. Other Financing Sources or Uses**

The City's "Other Financing Sources or Uses" consist of inter-fund transfers-in, insurance recoveries and transfers-out.

**i. Risk Management**

The City of Snohomish is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local 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 153 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, 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 sub-limits 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. The deductible for property coverage is \$5,000 and for auto coverage the deductible is \$1,000. 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.

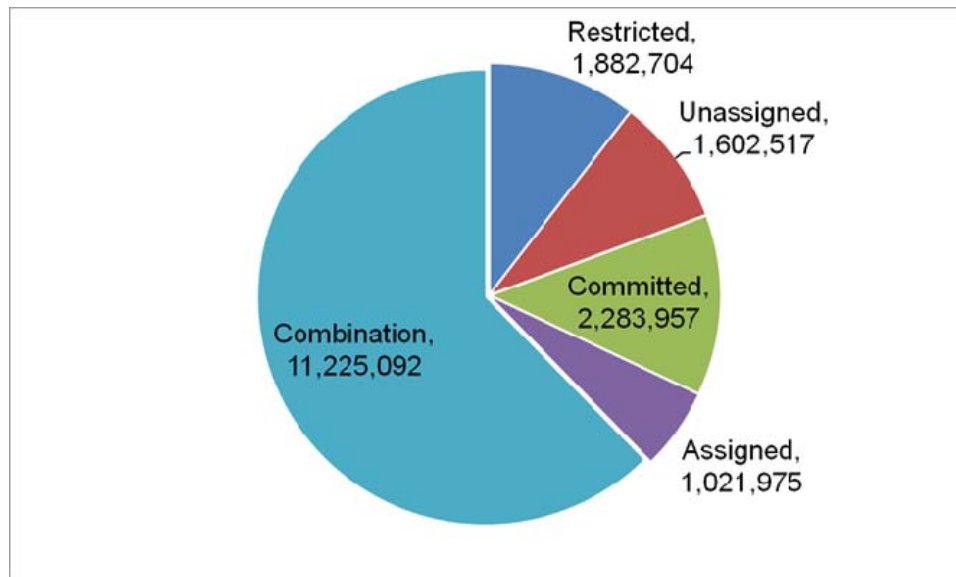
WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the inter-local, WCIA retains the right to additionally assess the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

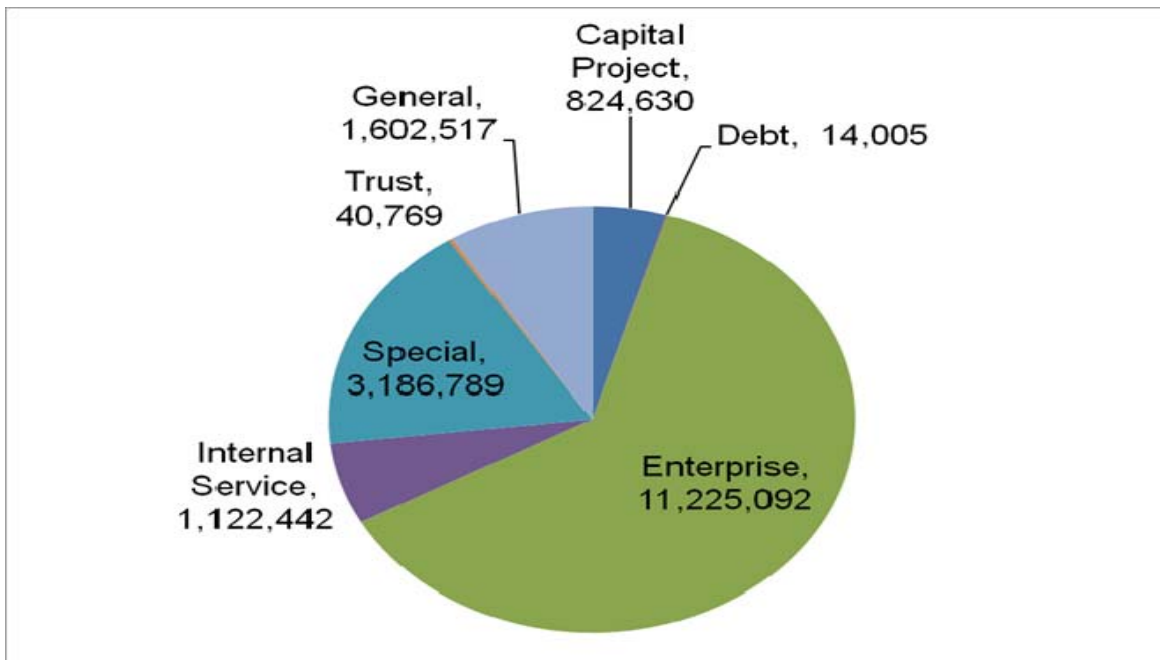
A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA. The financial statements for the WCIA can be obtained at [www.wciapool.org](http://www.wciapool.org).

#### **j. Reserved Portion of Ending Cash and Investments**

Beginning and ending fund balances are classified as restricted, committed, assigned or unassigned. Restricted and assigned balances are the amounts of cash and investments not available due to the restrictions imposed on them by external parties (grantors) and/or due to internal designations. Internal designations or committed fund balances are those imposed by the city council through a formal action such as ordinances or resolutions. The 2015 ending fund balance for all funds is \$18,016,244. Ending fund balance amounts, restated to accommodate for reconciling entries, the warrants payable (expenditures included in the 20-day look back period) and the City reporting on the cash basis would increase the ending balance by \$39,026 to \$18,055,270. The following chart depicts the City of Snohomish fund balance breakdown. Utility Enterprise funds have a combination of designations and are classified separately:



Certain revenue sources are restricted by Washington State law or by City Council ordinance. For example, revenues generated in the water, wastewater and storm water enterprise funds are reserved specifically to cover the costs of the utilities. Similarly park impact fees and traffic impact fees are restricted in use for approved parks and streets projects. The City of Snohomish General Fund - fund balance is the only unassigned fund balance within the overall fund structure. Summary fund balances by fund type is below:





**NOTE 2: DEPOSITS AND INVESTMENTS**

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

The City's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. The City's deposits and investments are insured, registered or held by the City or its agent in the City's name. Deposits and investments are presented at their cost basis. The City's Cash and Cash Equivalents at December 31, 2015 are as follows:

<b>Cash &amp; Cash Equivalent Portfolio</b>			
	<b>Total</b>	<b>City</b>	<b>Trust &amp; Agencies</b>
Petty Cash	570	570	
Cash Accounts	7,016,429	5,653,426	1,363,003
LGIP	9,508,820	9,508,820	
Investment Accounts	1,490,425	1,490,425	
<b>Total Portfolio</b>	<b>18,016,244</b>	<b>16,653,241</b>	<b>1,363,003</b>

**NOTE 3: PROPERTY TAXES**

The County Treasurer for Snohomish County acts as an agent to collect property taxes levied in their respective county for all taxing authorities. Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after the tax is levied.

The City's regular levy for 2015 was \$1.0320 per \$1,000 on an overall final assessed valuation of \$1,112,616,298 for a regular levy of \$1,148,248.

There are no City General Obligation bond levies for 2015.

The City has a banked capacity of \$1,027,508.60. This amount represents property tax levies forgone in prior years. The banked capacity amount may be levied in future years.

#### **NOTE 4: INTERFUND LOANS AND ADVANCES**

No inter-fund loan activities during 2015.

#### **NOTE 5: DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the City and summarizes the City's debt transactions for 2015. The debt service payment for the fiscal year being reported (2015) and future payment requirements, including interest, are as follows:

**City of Snohomish  
Debt Service Obligations  
as of 12/31/2015**

Year	General Obligation Bonds	Interest	Other Debt	Interest	Total Debt
2016	40,000	22,483	991,377	37,241	1,091,101
2017	40,000	20,723	715,403	33,664	809,790
2018	40,000	18,943	715,403	30,087	804,433
2019-2023	245,000	63,855	3,521,917	96,782	3,927,554
2024-2028	115,000	8,400	1,780,151	22,346	1,925,897
2029-2033	-	-	-	-	-
2034-2039	-	-	-	-	-
<b>Totals</b>	<b>480,000</b>	<b>134,403</b>	<b>7,724,251</b>	<b>220,121</b>	<b>8,558,775</b>

#### **NOTE 6: PENSION PLANS**

Substantially all City full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) Plans 2 administered by the Washington State 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 employee 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  
P.O. Box 48380  
Olympia, WA 98504-8380

At June 30, 2016 (the measurement date of the plans) the city's proportionate share of the collective net pension liabilities, as reported on schedule 9 was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.027582%	1,442,795
PERS 2/3	0.035615%	1,272,544
LEOFF 1	0.005228%	(63,009)

#### LEOFF Plan 1

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, the funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

#### **NOTE 7: HEALTH AND WELFARE**

The City of Snohomish 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 Inter-local agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or 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 Inter-local 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 Inter-local 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, 2015 - 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 fewer than 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 8: CONTINGENCIES AND LITIGATION**

As of December 31, 2015, there were damage claims and lawsuits pending against the City. However, management believes, and the City Attorney concurs, neither the potential liability from a single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits would materially affect the financial condition of the City.

**NOTE 9: OTHER EVENTS**

The City was issued a finding, reference no. 2014-001, from the Washington State Auditor's Office on September 23, 2015 covering audit period January 1, 2014 through December 31, 2014 which identified deficiencies considered to be material weaknesses related to internal controls that ensure only eligible and allocable costs were requested for federal reimbursements. The City followed the required State and Federal grant reimbursement procedures for submitting progress billings and did not request more for the project as a whole. The timing of the reimbursements was the cause of the discrepancy.

**NOTE 10: COMPONENT UNIT****Snohomish Transportation Benefit District**

In 2010, the Snohomish City Council enacted Ordinance 2197, establishing the Snohomish Transportation Benefit District comprised of the corporate limits of the City. The District was created under the authority provided by RCW 35.21. The City Council serves as the governing board of the Transportation Benefit District. The City and District have entered into an Inter-Local Agreement whereby funds generated by the transportation benefit district are transferred to the City and used as one funding source, along with other funding sources for overall transportation improvement projects that preserve, maintain, and operate the existing transportation infrastructure of the City. The District funds are provided by a sales tax increase approved by the City voters in an election held in August of 2011. Additional information about the City of Snohomish Transportation Benefit District can be obtained from the City's website at [www.snohomishwa.gov](http://www.snohomishwa.gov).

**NOTE 11: JOINT VENTURE****Snohomish Affordable Housing Association**

In 2013, the City of Snohomish entered into an Inter-Local Agreement for Inter-Jurisdictional Coordination Related to Affordable Housing initiatives with Snohomish County. Other cities joining the Inter-Local Agreement include Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo and Woodway. The parties

have a common goal to establish housing policies and programs provide technical expertise in support of affordable housing goals and to seek opportunities to leverage resources in support of housing goals in Snohomish County. The agreement creates a joint venture and each party contributes on an annual basis to Snohomish County who serves as the Administrative Agency and Fiscal Agent. A joint board is selected from each party to the agreement and establishes an annual budget and plan of work. Annual contributions for each party will be calculated as a percentage of the entire proposed budget as adopted by the Joint Board. Calculations are based on each party population with a minimum annual contribution of \$1,000. For 2015, the City of Snohomish financial responsibility and contribution is \$1,061 paid from the City's General Fund. A copy of the Inter-Local Agreement, annual budget and annual financial statements, as provided by Snohomish County are available at the Snohomish City Hall. Financial statements pertaining to the Inter-Local Agreement and Fiscal Agent are available through Snohomish County.

**Snohomish County Police Staff and Auxiliary Service Center (SNOPAC)**

In 1973, the City of Snohomish entered into an Inter-Local Agreement for Inter-Jurisdictional coordination related to establishing, maintaining and operating a support communications center. Other jurisdictions include Snohomish County, Snohomish County Cities (Police Departments) and Fire Districts. The Board of Directors includes a representative from each jurisdiction, members of the Police Tech Advisory Committee and a citizen. The most recent amendment to the ILA occurred in May of 2013. SNOPAC provides police, fire and emergency medical services support communications to all members of the SNOPAC ILA. These services are provided through radio, telephone and other means of communication. For these communication services the City of Snohomish allocates \$140,000 each year. The ILA is automatically renewed with no end contract date and is amended from time to time.

**NOTE 12: SIGNIFICANT COMMITMENT**

The City of Snohomish is a participant in the U. S. Department of Justice Equitable Sharing Program. Through this program the Department of Justice distributes an equitable share of forfeited property and proceeds to a participating state and local law enforcement agency that directly participates in an investigation or prosecution that result in a federal forfeiture. Equitable sharing funds are required to be used for law enforcement purposes. Information regarding the Department of Justice Equitable Sharing Program can be found at [www.justice.gov](http://www.justice.gov). As of December 31, 2015, The City of Snohomish has received \$133,950 in equitable sharing payments. Fund 113, a special revenue fund, is established to track the revenue sharing payments. Funds are restricted for use for future law enforcement purposes. In 2015, no allocations were authorized from Fund 113.

**NOTE 13: SUBSEQUENT EVENTS**

Due to recent changes in Legislation regarding Transportation Benefit Districts (chapter 36.74 RCW) The City of Snohomish has chosen to dissolve the TBD and assume all rights, powers, functions, and obligations (Resolution 1333). Effective January 1, 2016 the City is treating The TBD as a Special Revenue Fund.

**City of Snohomish**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	ULMT Bond Rivertrail	7/1/2025	535,000	-	55,000	480,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>535,000</b>	<b>-</b>	<b>55,000</b>	<b>480,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
264.30	Net Pension Liability		-	2,715,339	-	2,715,339
259.12	Compensated Absences GO	1/1/2014	227,629	288,695	267,580	248,744
263.82	Federal Home Loan	12/1/2021	430,000	-	430,000	-
263.82	RECD Loan	10/1/2036	763,717	-	762,565	1,152
263.82	SRF Loan	5/1/2015	827,921	-	551,947	275,974
263.82	PWTF Phase 1 CSO	5/1/2027	1,461,403	-	104,386	1,357,017
263.82	PWTF Comp Water System	9/1/2014	18,000	-	18,000	-
263.82	PWTF CTED WWTP	7/1/2028	1,684,375	-	120,312	1,564,063
263.82	PWTF Cemetary Creek 1	3/1/2022	440,793	-	55,099	385,694
263.82	PWTF Cemetary Creek 2	5/1/2024	3,619,218	-	361,922	3,257,296
263.82	PWTF Cemetary Creek 3	7/1/2027	957,895	-	73,684	884,211
259.12	Compensated Abs Proprietary	1/1/2014	70,777	147,315	133,690	84,402
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>10,501,729</b>	<b>3,151,349</b>	<b>2,879,185</b>	<b>10,773,892</b>
<b>Total Liabilities:</b>			<b>11,036,729</b>	<b>3,151,349</b>	<b>2,934,185</b>	<b>11,253,892</b>



## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>