



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Arlington

Snohomish County

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

Published December 29, 2016

Report No. 1018176





Washington State Auditor's Office

December 29, 2016

Mayor and City Council
City of Arlington
Arlington, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Arlington 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 Arlington. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: January 1, 2014 – December 31, 2014	Report Ref. No.: 1015133	Finding Ref. No.: 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.		
Background: 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. We reviewed the City's internal controls over budget compliance. Our audit found: <ul style="list-style-type: none"> 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 <i>Budgeting, Accounting and Reporting System (BARS)</i> manual. 		
Status of Corrective Action: <div style="display: flex; justify-content: space-between;"> <div> <input checked="" type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <ul style="list-style-type: none"> <i>Elimination of external spreadsheets to record financial data. All financial transactions are recorded directly into financial management software BIAS.</i> <i>Monthly reconciliation and review process is used to identify if transactions are missing.</i> <i>Enhanced financial statement review process and use of SAO, BIAS and MRSC review checklists are used to ensure financial statements are prepared accurately.</i> <i>Use of the BARS manual for financial statement preparation and for the recording of</i> 		

unusual transactions to ensure transactions are recorded properly and the financials are accurately prepared.

- *Use of SAO's helpdesk for clarification on recording unusual transactions.*
- *Finance Director and Assistant Finance Director attended the Association of Washington Cities budget conference in August 2015.*
- *Continuing education for all Finance department staff.*
- *Consultation with other financial professionals. Finance directors have a network of resources, including MRSC and other finance professionals at other municipalities. We often consult with one another on a variety of issues which may include; implementation of new accounting standards, how to record an unusual transaction, and policy questions to ensure accurate reporting.*

**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, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 2, 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

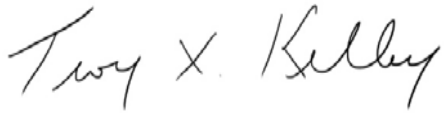
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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

December 2, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 12.

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, 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 Arlington, 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.

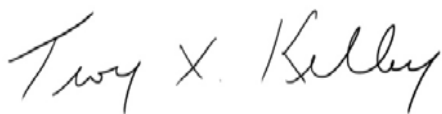
Other Matters

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 December 2, 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 2, 2016

FINANCIAL SECTION

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

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund
Beginning Cash and Investments				
30810	Reserved	6,631,806	50,000	5,208
30880	Unreserved	13,777,632	599,282	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	13,037,227	11,117,942	-
320	Licenses and Permits	497,681	497,681	-
330	Intergovernmental Revenues	1,438,611	505,878	386,881
340	Charges for Goods and Services	14,677,014	1,257,788	42,931
350	Fines and Penalties	337,624	197,544	-
360	Miscellaneous Revenues	5,484,363	82,759	1,169
Total Operating Revenues:		35,472,520	13,659,593	430,982
Operating Expenditures				
510	General Government	2,070,978	1,697,446	-
520	Public Safety	10,676,598	7,967,995	-
530	Utilities	7,157,936	5,411	-
540	Transportation	4,136,082	-	903,777
550	Natural and Economic Environment	754,988	624,249	-
560	Social Services	4,224	4,224	-
570	Culture and Recreation	538,933	81,455	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		25,339,740	10,380,780	903,777
Net Operating Increase (Decrease):		10,132,781	3,278,813	(472,795)
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	1,662,498	184,345	40
391-393	Debt Proceeds	1,020,281	-	-
397	Transfers-In	1,957,808	133,843	555,000
Total Nonoperating Revenues:		4,640,587	318,188	555,040
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	1,007,086	140,796	43
591-593	Debt Service	4,258,928	917,324	-
594-595	Capital Expenditures	3,667,409	121,121	2,110
597	Transfers-Out	1,957,808	1,161,203	-
Total Nonoperating Expenditures:		10,891,230	2,340,444	2,152
Net Increase (Decrease) in Cash and Investments:		3,882,137	1,256,557	80,092
Ending Cash and Investments				
5081000	Reserved	7,930,328	-	85,302
5088000	Unreserved	16,361,247	1,905,839	-
Total Ending Cash and Investments		24,291,574	1,905,839	85,302

The accompanying notes are an integral part of this statement.

107 Growth Management Fund	108 Emer Med Servcs Fund	109 Stream Corri Rest Fund	114 Lodging Tax Fund	116 Cemetery Fund	212 LID #21 Fund
1,537,533	-	-	65,544	-	-
-	2,957	35,058	-	31,274	55,239
-	-	-	-	-	-
-	1,048,277	-	134,044	-	-
-	-	-	-	-	-
-	1,341	-	-	-	-
550,943	1,240,343	-	-	238,709	-
-	-	-	-	-	-
19,747	32,498	801	962	427	23,704
570,689	2,322,458	801	135,005	239,136	23,704
-	-	-	-	-	-
-	2,638,450	-	-	-	-
-	-	6,437	-	275,096	-
-	-	-	-	-	-
-	-	-	130,739	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,638,450	6,437	130,739	275,096	-
570,689	(315,992)	(5,636)	4,266	(35,960)	23,704
-	333,316	-	-	17,756	-
-	-	-	-	-	-
298,641	139,070	-	-	-	-
298,641	472,386	-	-	17,756	-
325,698	1,171	-	-	332	-
-	499	-	-	-	-
-	2,093	-	-	48	-
109,053	-	-	-	-	78,943
434,751	3,763	-	-	380	78,943
434,579	152,631	(5,636)	4,266	(18,584)	(55,239)
1,972,113	-	-	69,810	-	-
-	155,589	29,423	-	12,690	-
1,972,113	155,589	29,423	69,810	12,690	-

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
164,431	31,462	-	-	-	-
-	-	4	494,502	104	13,829
-	-	-	-	-	-
368,742	368,222	-	-	-	-
-	-	-	-	-	-
-	-	-	42,016	16,000	-
-	-	-	-	-	-
-	-	-	-	-	-
1,969	1,782	-	11,271	15,482	149
370,711	370,005	-	53,287	31,482	149
-	-	-	-	-	-
70,154	-	-	-	-	-
-	-	-	-	-	-
-	-	-	34,771	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
70,154	-	-	34,771	-	-
300,557	370,005	-	18,517	31,482	149
-	-	-	1,297	-	-
-	-	-	-	-	-
-	-	146,000	50,000	163,937	-
-	-	146,000	51,297	163,937	-
-	-	-	973	-	-
50,400	288,646	-	-	152,000	-
-	-	96,000	219,401	43,103	-
190,068	-	-	298,641	-	-
240,468	288,646	96,000	519,015	195,103	-
60,089	81,359	50,000	(449,200)	315	149
224,520	112,820	-	-	-	-
-	-	50,004	45,300	420	13,977
224,520	112,820	50,004	45,300	420	13,977

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
-	3,901,946	629,814	-	-	-
5,662	9,669,267	1,322,246	437,065	1	1,083,714
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	110,313	376,181	-	-
-	10,390,799	19,339	915,370	-	-
-	109,423	26,946	3,711	-	-
61	154,683	3,046,805	7,202	490,844	689,250
61	10,654,905	3,203,403	1,302,464	490,844	689,250
-	-	-	-	-	-
-	-	-	-	-	-
-	6,384,787	-	486,205	-	-
-	-	2,272,293	-	490,845	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	6,384,787	2,272,293	486,205	490,845	-
61	4,270,118	931,110	816,259	(1)	689,250
-	408,393	598,533	-	-	114,023
-	-	-	-	-	1,020,281
-	-	-	-	-	-
-	408,393	598,533	-	-	1,134,304
-	1,082	338,278	198,714	-	-
-	2,735,464	113,179	1,415	-	-
-	994,226	663,464	172,265	-	1,349,705
-	3,400	-	115,000	-	-
-	3,734,173	1,114,921	487,393	-	1,349,705
61	944,339	414,722	328,865	(1)	473,849
-	4,240,692	962,090	-	-	-
5,723	10,274,859	1,404,692	765,931	-	1,557,562
5,723	14,515,551	2,366,782	765,931	-	1,557,562

The accompanying notes are an integral part of this statement.

504 P W Facilities M&O Fund	702 Cem Endowment Fund
-	245,868
27,428	-
-	-
-	-
-	-
-	-
6,408	14,385
-	-
900,073	2,727
<u>906,480</u>	<u>17,112</u>
373,532	-
-	-
-	-
434,398	-
-	-
-	-
457,478	-
-	-
<u>1,265,408</u>	<u>-</u>
(358,928)	17,112
4,794	-
-	-
471,317	-
<u>476,111</u>	<u>-</u>
-	-
-	-
3,874	-
1,500	-
<u>5,374</u>	<u>-</u>
111,809	17,112
-	262,980
139,237	-
<u>139,237</u>	<u>262,980</u>

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, 2015

		Total for All Funds (Memo Only)	622 Cem Pre- Need Trust	680 Transportation Benefit District
308	Beginning Cash and Investments	323,774	22,498	301,277
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	880,578	5,204	875,374
380-390	Other Increases and Financing Sources	-	-	-
510-570	Expenditures	691,089	1,160	689,929
580-590	Other Decreases and Financing Uses	-	-	-
Net Increase (Decrease) in Cash and Investments:		189,489	4,044	185,445
508	Ending Cash and Investments	513,264	26,542	486,722

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

CITY OF ARLINGTON

Period Ending December 31, 2015

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

Financial transactions of the City of Arlington are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The city's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. 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 a custodial 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 2015 are shown on the following page, which includes the final budget amendment adopted December 21, 2015.

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.

FUND/DEPARTMENT	FINAL APPROPRIATED AMOUNTS	ACTUAL EXPENSES	VARIANCE
001 - General Fund			
General Fund	14,405,155	12,690,209	1,714,946
Mandatory Reserve Fund	0	0	0
Program Develop Funds	32,029	31,014	1,015
Total 001 - General Fund	14,437,184	12,721,223	1,715,961
101 - Street Fund	1,015,152	905,929	109,223
107 - Growth Management Fund	675,698	434,751	240,947
108 - Emergency Med Services Fund	2,738,736	2,642,212	96,523
109 - Stream Corri Rest Fund	7,000	6,437	563
114 - Lodging Tax Fund	138,885	130,739	8,146
116 - Cemetery Fund	279,839	275,476	4,363
212 - LID #21 Fund	78,950	78,943	7
303 - REET 1 Fund	310,622	310,622	0
304 - REET 2 Fund	289,600	288,646	954
305 - Capital Facil/Bldg Fund	96,000	96,000	0
310 - Transport Improv Fund	1,731,300	553,785	1,177,515
311 - Park Improvement Fund	197,000	195,103	1,897
312 - Library Improvement Fund	0	0	0
316 - Cemetery Cap Improv Fund	0	0	0
401 - Water/Sewer Utility Fund			
Water/Sewer Utility Fund	11,947,191	8,081,362	3,865,829
Water Improvement Fund	1,291,890	1,069,247	222,643
Sewer Improvement Fund	207,520	114,200	93,320
P W-Utilities Admin Fund	861,017	854,151	6,866
Total 401 - Water/Sewer Utility Fund	14,307,618	10,118,960	4,188,658
402 - Airport Fund			
Airport Fund	4,123,020	3,250,544	872,476
Airport Reserve Fund	0	0	0
Airport CIP (FAA) Fund	182,000	136,669	45,331
Total 402 - Airport Fund	4,305,020	3,387,214	917,807
412 - Storm Water Mgmt Fund			
Storm Water CIP Fund	420,388	311,913	108,475
Storm Water Mgmt Fund	875,530	661,684	213,846
Total 412 - Storm Water Mgmt Fund	1,295,918	973,597	322,321
501 - Equip Rental M & O Fund	579,605	490,845	88,760
503 - Equip Rental Replacement Fund	2,318,472	1,349,705	968,767
504 - P W Facilities M&O Fund	1,323,505	1,270,781	52,724
622 - Cemetery Pre-Need Trust	4,000	1,160	2,840
680 - Transportation Benefit District	961,054	689,929	271,125
702 - Cemetery Endowment Fund	0	0	0
Totals	47,091,158	36,922,057	10,169,101

The transportation improvement fund has a variance of \$1,177,515. The 173rd road construction project was budgeted in 2015 for \$1.5 million pending grant funding from the transportation improvement board (TIB). Funding did not get approved in 2015 so the project was re-budgeted in 2016.

The equipment rental and replacement fund had a variance of \$968,767. The 2015 budget included \$1.5 million for the purchase of two fire apparatus. The fire apparatus were not complete with construction or delivery as of 12/31/2015 so final expenses for this project will be reported in 2016.

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 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.

Payments are recognized as expenditures when paid.

J. Debt Service Requirements-See Note #5

K. Other Financing Sources or Uses

Inter-fund 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 inter-fund 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 179 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>12/31/15 Balance</u>
101 Street Fund	Street repair/construction	\$85,301.61
107 Growth Fund	Infrastructure improvements	\$1,972,112.56
114 Lodging Tax Fund	Tourism promotion	\$69,810.31
303 REET 1 Fund	Capital improvement	\$224,520.45
304 REET 2 Fund	Capital improvement	\$112,820.18
401 Water/Sewer Fund	Debt reserves	\$4,240,691.57
402 Airport Fund	Debt reserves/FAA projects	\$962,090.38
702 Cemetery Endowment	Preservation of cemetery	\$262,980.49

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, 2015 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.	\$ 2,513,896	\$ -		\$ 2,513,896
U.S. Government Securities	16,004,330	-		16,004,330
Municipal Securities	1,822,891	-		1,822,891
Certificates of Deposit	<u>2,059,522</u>	<u>-</u>		<u>2,059,522</u>
Total	<u>\$ 22,400,639</u>	<u>\$ -</u>		<u>\$ 22,400,639</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 2015 was \$1.955 per \$1,000 on an assessed valuation of \$2,003,794,121 for a total regular levy of \$3,917,418. The city also levied \$0.463 per \$1,000 for Emergency Medical Services (EMS) for a total levy of \$927,422. (per the Snohomish County Assessor's Office Annual Report for 2015 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 2015, 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. This loan was paid in full as of December 31, 2015.

In January, February and March of 2015, the EMS Fund required a short term interfund loan to meet cash flows needs until the fund received its May 2015 property tax payment. The EMS Fund borrowed \$325,698 from the Growth Fund intending to repay the loans when property taxes were received. The City had budgeted to receive \$287,000 in property taxes from Fire District 21 as part of an interlocal agreement. As of December 31, 2015 Fire District 21 had not remitted payment to the City pending ongoing contract negotiations. As these revenues from Fire District 21 were not received in 2015 as originally anticipated, repayment of the loan was not possible. Interest will accrue on the outstanding principal balance and will be tied to the monthly Local Government Investment Pool rate managed by the State Treasurer's Office.

The following table displays interfund loan activity during 2015.

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Loan Balance 01/01/2015</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Principle Balance 12/31/2015</u>
General	Airport	\$2,146,438	\$ 0	\$74,876	\$2,071,562
Storm water	Water CIP	257,226	0	48,714	208,512
Storm water CIP	Water CIP	150,000	0	150,000	0
EMS	Growth		325,698	0	325,698

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, 2015. On July 7, 2014 the City adopted Ordinance No. 2014-009 authorizing the issuance of a \$500,000 limited tax general obligation bond, non-revolving line of credit for the purchase of eight police vehicles and respective equipment. Draw #1 and #2 were made in 2014, Draw #3 and the final draw, Draw #4 were made in 2015 for a total of \$235,516. On July 6, 2015, the City adopted Ordinance No. 2015-013 authorizing the issuance of a \$1,500,000 limited tax general obligation bond line of credit for the purchase of two fire apparatus. One draw was made on the line of credit in 2015 for the amount of \$784,765. A second draw is anticipated in early 2016 with a final draw expected by June 30, 2016.

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:

	G.O. DEBT PRINCIPAL	G.O. DEBT INTEREST	REVENUE PRINCIPAL	REVENUE BONDS INTEREST	OTHER DEBT PRINCIPAL	OTHER DEBT INTEREST	TOTAL
2016	860,072	557,159	596,519	45,666	1,723,935	577,278	4,360,629
2017	943,124	534,006	474,315	20,870	1,652,457	552,168	4,176,940
2018	977,743	498,393	30,124	590	1,672,349	527,398	3,706,597
2019	969,616	464,757			1,692,826	502,043	3,629,242
2020	935,892	428,879			1,787,169	474,934	3,626,874
2021-2025	4,135,181	1,645,684			9,469,063	1,888,473	17,138,401
2026-2030	3,365,000	882,150			7,456,259	1,003,665	12,707,074
2031-2035	2,415,000	246,400			1,405,301	346,797	4,413,498
2036-2040					953,298	101,338	1,054,636
TOTALS	14,601,628	5,257,428	1,100,958	67,126	27,812,657	5,974,094	54,813,891

NOTE 6 - PENSION PLANS

Substantially all city full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) Plan 1, 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. The State Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems. Contributions to the systems by both employees and employer are based upon gross wages covered by plan benefits.

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

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

The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The City also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2015, the City's proportionate share of the collective net pension liabilities as reported on the Schedule 9 was as follows;

PLAN	ALLOCATION %	LIABILITY (ASSET)
PERS 1	.038590	\$2,018,616
PERS 1 UAAL	.000031	\$1,622
PERS 2/3	.049868	\$1,781,812
LEOFF 1	.011355	(\$136,853)
LEOFF 2	.169363	(\$1,740,713)
VFFRPF	.41	(79,011)

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, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

The City also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

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 \$420,236 on December 31, 2015.

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 Creek, 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 7/1/XX – 6/30/XX	AHA's Total Fiscal Year Budget	Arlington's Share of Budget	Arlington's Share as % of Total AHA Budget
2014	\$92,543	\$1,074	1.16%
2015	\$123,464	\$1,089	.88%
2016	\$145,590	\$1,089	.75%

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 Crystil Wooldridge, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 (or email: cwooldridge@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 2015 was \$872,395 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, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical 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, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the 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 2015 and a total of \$45,884 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 2015.

Arlington Municipal Airport Construction Commitment

The City of Arlington Airport had no active construction projects as of December 31, 2015.

Fire District 21 Contract

Snohomish County Fire District 21 has stopped making payments to the City of Arlington following the expiration of an inter-local agreement on December 21, 2014, although the City has continued to provide service to the area. Negotiations are currently at an impasse but the City intends to take legal action if necessary to collect sums owing for the service provided.

Contingencies and Litigations

Holden-McDaniel Partners filed a lawsuit naming the City of Arlington and numerous other defendants on January 5, 2011, under Snohomish County Superior Court case no. 11-2-02031-1. The lawsuit claimed that the City of Arlington negligently designed, maintained and constructed storm water facilities on property uphill of the plaintiff's property and alleged damages in the millions of dollars. All claims against the City (and other defendants) were dismissed at summary judgment on 5/11/15. The plaintiffs have appealed the dismissal to the Washington State Court of Appeals.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2007 LTGO - N Olympic Ave	12/1/2027	2,655,000	-	175,000	2,480,000
251.11	2010 LTGO - Refunding/Fire St.	12/1/2030	3,475,000	-	350,000	3,125,000
251.11	2010 LTGO - Refunding/800 MHZ	12/1/2021	260,000	-	40,000	220,000
251.11	2014 LTGO-Refunding 2004/Police Station	12/1/2034	7,265,000	-	85,000	7,180,000
251.11	2014 LTGO-Police Vehicles	10/1/2024	180,819	235,516	44,471	371,864
251.11	2015 LTGO - Fire Apparatus	6/1/2025	-	784,765	-	784,765
251.11	2014 LTGO-Refunding 2009/Airport Expansion	12/1/2034	485,000	-	45,000	440,000
263.61	Graafstra Note-Park Land	4/1/2040	3,200,000	-	-	3,200,000
263.51	Lease - Servers - 810-6523252-002	8/1/2015	2,048	-	2,048	-
263.51	Lease - Servers - 810-6523252-001	4/1/2015	4,705	-	4,705	-
263.51	Lease - Computers - 810-6523252-003	2/1/2018	61,583	-	14,355	47,228
263.51	Lease - Police Vehicles	11/1/2016	53,172	-	18,490	34,682
Total General Obligation Debt/Liabilities:			17,642,327	1,020,281	779,069	17,883,539
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	#####	1,135,433	-	153,784	981,649
252.11	2007 W/S Refunding	12/1/2017	1,495,000	-	520,000	975,000
252.11	2003 Revenue Bonds-Airport	8/1/2018	169,877	-	43,766	126,111
263.82	1996 PWTF Loan-PW-5-96-791-002	7/1/2016	181,607	-	90,803	90,804
263.82	2006 PW Loan WWTP - PW-06-962-002	7/1/2026	4,722,561	-	393,547	4,329,014
263.82	2007 PW Loan WWTP - PR07-951-001	7/1/2027	684,208	-	52,632	631,576
263.82	2008 PW Loan WWTP - PC08-951-001	7/1/2028	7,411,764	-	529,412	6,882,352
263.82	Recovery Act Loan-DOE Loan L1000024	7/1/2029	5,068,285	-	243,095	4,825,190
263.82	Base Revolving Fund Loan-DOE Loan L1000025	7/1/2029	8,249,392	-	395,674	7,853,718
264.30	Pension Liabilities		-	3,802,050	-	3,802,050
Total Revenue and Other (non G.O.) Debt/Liabilities:			29,118,127	3,802,050	2,422,712	30,497,465
Total Liabilities:			46,760,454	4,822,331	3,201,781	48,381,004

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	
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