



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Snohomish

Snohomish County

For the period January 1, 2016 through December 31, 2016

Published March 1, 2018

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

March 1, 2018

Mayor and City 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,

Pat McCarthy
State Auditor
Olympia, WA

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**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, 2016 through December 31, 2016**

Mayor and City 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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated February 1, 2018. As discussed in Note 11 to the financial statements, the City dissolved its Transportation Benefit District, a component unit previously presented as a fiduciary fund, with all remaining assets and liabilities transferring to the City.

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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated February 15, 2018.

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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

February 1, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Snohomish Snohomish County January 1, 2016 through December 31, 2016

Mayor and City 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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

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, 2016, 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, 2016, 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.

Matters of Emphasis

As discussed in Note 11 to the financial statements, the City dissolved its Transportation Benefit District, a component unit previously presented as a fiduciary fund, with all remaining assets and liabilities transferring to the City. Our opinion is not modified with respect to this matter.

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 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 February 1, 2018 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 cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

February 1, 2018

FINANCIAL SECTION

**City of Snohomish
Snohomish County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016

City of Snohomish
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General Fund	102 Streets	104 Park Impact Fee
Beginning Cash and Investments					
30810	Reserved	2,973,316	-	-	250,249
30880	Unreserved	15,040,927	1,583,424	75,865	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	8,360,535	6,734,629	-	-
320	Licenses and Permits	328,638	321,138	-	-
330	Intergovernmental Revenues	472,964	220,775	212,196	-
340	Charges for Goods and Services	14,989,486	1,738,060	-	37,350
350	Fines and Penalties	61,043	53,718	-	-
360	Miscellaneous Revenues	248,857	74,088	6,502	795
Total Revenues:		24,461,522	9,142,406	218,698	38,145
Expenditures					
510	General Government	2,744,253	2,097,177	-	-
520	Public Safety	3,232,904	3,232,904	-	-
530	Utilities	5,975,909	-	-	-
540	Transportation	2,342,355	-	958,390	-
550	Natural and Economic Environment	566,117	566,117	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	826,503	753,633	-	-
Total Expenditures:		15,688,040	6,649,831	958,390	-
Excess (Deficiency) Revenues over Expenditures:		8,773,481	2,492,577	(739,692)	38,145
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	2,467,483	50,000	820,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	33	33	-	-
381, 395, 398	Other Resources	43,166	43,166	-	-
Total Other Increases in Fund Resources:		2,510,682	93,199	820,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,922,130	942,736	-	-
591-593, 599	Debt Service	1,091,100	-	-	-
597	Transfers-Out	2,467,483	782,483	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		7,480,713	1,725,219	-	-
Increase (Decrease) in Cash and Investments:		3,803,450	860,557	80,308	38,145
Ending Cash and Investments					
5081000	Reserved	3,877,642	-	-	288,394
5088000	Unreserved	17,940,052	2,443,979	156,174	-
Total Ending Cash and Investments		21,817,694	2,443,979	156,174	288,394

The accompanying notes are an integral part of this statement.

City of Snohomish
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		107 Visitor Promotion	108 PBIA	113 Police Operational Reserve	117 Real Estate Excise Tax
Beginning Cash and Investments					
30810	Reserved	11,067	34,799	-	942,452
30880	Unreserved	-	-	133,950	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	10,330	-	-	697,329
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	7,325	-
360	Miscellaneous Revenues	38	21,158	344	3,327
Total Revenues:		10,368	21,158	7,669	700,656
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	9,400	21,700	-	-
Total Expenditures:		9,400	21,700	-	-
Excess (Deficiency) Revenues over Expenditures:		968	(542)	7,669	700,656
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	90,000	325,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	90,000	325,000
Increase (Decrease) in Cash and Investments:		968	(542)	(82,331)	375,656
Ending Cash and Investments					
5081000	Reserved	12,036	34,257	-	1,318,108
5088000	Unreserved	-	-	51,619	-
Total Ending Cash and Investments		12,036	34,257	51,619	1,318,108

City of Snohomish
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		125 Street Impact Reserve	130 Transportation Benefit District	205 Debt Service Fund	310 Municipal Capital Projects
Beginning Cash and Investments					
30810	Reserved	412,181	1,322,568	-	-
30880	Unreserved	-	-	14,005	(30,193)
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	917,898	349	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	64,105	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,265	4,624	108	98
Total Revenues:		65,369	922,522	458	98
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	97,793	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	97,793	-	-
Excess (Deficiency) Revenues over Expenditures:		65,369	824,730	457	98
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	62,483	305,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	62,483	305,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	150,667
591-593, 599	Debt Service	-	-	62,483	-
597	Transfers-Out	-	400,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	400,000	62,483	150,667
Increase (Decrease) in Cash and Investments:		65,369	424,730	458	154,431
Ending Cash and Investments					
5081000	Reserved	477,551	1,747,297	-	-
5088000	Unreserved	-	-	14,463	124,238
Total Ending Cash and Investments		477,551	1,747,297	14,463	124,238

City of Snohomish
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		311 Street Improvements	401 Water Utility	402 Wastewater Utility	403 Solid Waste
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	945,283	2,411,236	6,739,557	18,388
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	4,050	3,450	-
330	Intergovernmental Revenues	30,514	-	-	-
340	Charges for Goods and Services	97,793	2,919,212	5,397,361	1,999,557
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,533	69,605	21,428	94
Total Revenues:		130,839	2,992,866	5,422,240	1,999,651
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	2,059,290	1,850,685	1,992,671
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	2,059,290	1,850,685	1,992,671
Excess (Deficiency) Revenues over Expenditures:		130,839	933,577	3,571,554	6,980
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	705,000	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		705,000	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,343,455	195,231	970,490	-
591-593, 599	Debt Service	-	-	1,028,618	-
597	Transfers-Out	-	180,000	650,000	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,343,455	375,231	2,649,108	-
Increase (Decrease) in Cash and Investments:		(507,616)	558,346	922,446	6,980
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	437,667	2,969,582	7,662,004	25,368
Total Ending Cash and Investments		437,667	2,969,582	7,662,004	25,368

City of Snohomish
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		404 Stormwater Utility	501 City Shop	502 Information Services	503 Self- insurance Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	2,035,640	635,846	247,981	4,639
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,725	-	7,755	-
340	Charges for Goods and Services	1,295,321	766,191	527,372	6,701
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	7,209	34,167	944	1
Total Revenues:		1,304,255	800,358	536,071	6,701
Expenditures					
510	General Government	-	189,385	444,606	13,086
520	Public Safety	-	-	-	-
530	Utilities	73,263	-	-	-
540	Transportation	635,050	559,242	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		708,313	748,626	444,606	13,086
Excess (Deficiency) Revenues over Expenditures:		595,942	51,732	91,465	(6,384)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	525,000	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		525,000	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	285,395	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	40,000	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		285,395	40,000	-	-
Increase (Decrease) in Cash and Investments:		835,547	11,731	91,465	(6,384)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	2,871,187	647,577	339,446	(1,746)
Total Ending Cash and Investments		2,871,187	647,577	339,446	(1,746)

City of Snohomish
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		505 Equipment Replacement
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	225,306
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	140,464
350	Fines and Penalties	-
360	Miscellaneous Revenues	530
Total Revenues:		140,994
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	91,881
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	41,770
Total Expenditures:		133,651
Excess (Deficiency) Revenues over Expenditures:		7,343
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-
Other Decreases in Fund Resources		
594-595	Capital Expenditures	34,156
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581	Other Uses	-
Total Other Decreases in Fund Resources:		34,156
Increase (Decrease) in Cash and Investments:		(26,813)
Ending Cash and Investments		
5081000	Reserved	-
5088000	Unreserved	198,493
Total Ending Cash and Investments		198,493

City of Snohomish
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	602 Miller Library Trust	604 Carnegie Restoration Fund
308	Beginning Cash and Investments	40,435	5,769	34,667
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	14,992	16	14,976
380-390	Other Increases and Financing Sources	-	-	-
510-570	Expenditures	11,288	-	11,288
580-590	Other Decreases and Financing Uses	-	-	-
	Net Increase (Decrease) in Cash and Investments:	3,704	16	3,688
508	Ending Cash and Investments	44,140	5,785	38,355

The accompanying notes are an integral part of this statement.

City of Snohomish
Notes to the Financial Statements
For the year ended December 31, 2016

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 local government and provides public safety, 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 uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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 government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government 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 assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

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

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

C. Budgets

The City adopts annual appropriated budgets for General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Proprietary Funds, and Trust and Agency funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follow:

City of Snohomish
Final Appropriations vs. Actual Expenditures
By Fund as of December 31,2016

Fund/Department	Final Appropriation	Actual Expenditures	Variance	Notes
General Fund				
City Council	232,356	290,827	(58,471)	Professional Services -legal exceeded budget
City Manager	964,417	990,327	(25,910)	Professional Services -legal exceeded budget
Support Services-Finance	606,463	574,338	32,125	Personnel costs under budget
Law Enforcement	3,794,295	3,370,933	423,362	Personnel contract billing received after closing
Planning & Permitting	598,292	540,965	57,327	Personnel costs under budget
Public Works-Parks & Facilities	719,851	682,692	37,159	Supplies and Cost Allocation Charges under budget
Public Works-Engineering	1,001,503	942,736	58,767	Professional Services under budget
Non-Departmental	201,503	199,748	1,755	At budget
Transfers-Out	782,483	782,483	-	Transfers Out at budget
Total General Fund	8,901,163	8,375,049	526,114	
	-			Supplies, Professional Services and Repairs and Maintenance under budget
Streets Fund	1,019,291	958,390	60,901	
Park Impact Fee Fund	-		-	
Visitor Promotion Fund	11,120	9,400	1,720	Community Events Administration fees under budget
PBIA Fund	40,000	21,700	18,300	Services under budget
Police Seizures Fund	90,000	90,000	-	Transfers Out at budget
REET Fund	325,000	325,000	-	Transfers Out at budget
Street Impact Fee Fund	-		-	
Debt Service Fund	62,983	62,483	500	Debt Service principal at budget
Municipal Capital Project Fund	330,000	150,667	179,333	Capital Outlay under budget
Street Capital Project Fund	2,196,328	1,343,455	852,873	Overlay Construction under budget
Water Utility Fund	2,673,409	2,434,520	238,889	Capital Outlay under budget
Wastewater Utility Fund	4,150,782	4,499,794	(349,012)	Capital Projects over budget
Solid Waste Fund	2,036,644	1,992,671	43,973	Recycling services under budget
Stormwater Fund	2,003,623	993,708	1,009,915	Professional services and Capital Outlay under budget
Fleet/Facilities Fund	912,003	788,626	123,377	Natural gas and repairs and maintenance under budget
Information Services Fund	595,533	444,606	150,927	Professional Services under budget, software under budget, repairs & maintenance under budget
Self-Insurance Fund	5,000	13,086	(8,086)	Unemployment compensation under budget
Equipment Replacement Fund	162,000	167,807	(5,807)	Capital Outlay over budget
Carnegie Restoration Fund	17,600	11,288	6,312	Leasehold tax under budget
Transportation Benefit District	530,390	497,793	32,597	Capital Outlay under budget
	17,161,706	14,804,994		

Revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City's legislative body.

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. Capital assets and inventory are recorded as capital 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. 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 (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 168 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, 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.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when expenditure is subject to restrictions imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet the restrictions are incurred, the City intends to use the reserved resources first before using unreserved amounts.

Reservation of Ending Cash and Investments consist of:

Fund	Title	Amount	Description
104	Park Impact Fee	\$ 288,394	Restricted by State Statute
107	Visitor Promotion	\$ 12,036	Restricted by State Statute
108	PBIA	\$ 34,257	Restricted by Ordinance 2017
117	Real Estate Excise Tax	\$ 1,318,108	Restricted by State Statute
125	Street Impact Reserve	\$ 477,551	Restricted by State Statute
130	Transportation Benefit District	\$ 1,747,297	Restricted by State Statute
	TOTAL	\$ 3,877,643	

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 it's 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, 2016 are as follows:

Cash & Cash Equivelent Portfolio			
	Total	City	Trust & Agencies
Petty Cash	570	570	
Cash Accounts	7,636,222	7,636,222	44,140
LGIP	12,990,607	12,990,607	
Investment Accounts	1,490,425	1,490,425	
Total Portfolio	22,117,824	22,117,824	44,140

Note 3 - Property Tax

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 2016 was \$.97483124 per \$1,000 on an overall final assessed valuation of \$1,208,483,540 for a regular levy of \$1,178,067.51.

There are no City General Obligation bond levies for 2016.

Note 4 - Interfund Loans

No inter-fund loan activities during 2016.

Note 5 – Debt Service Requirements

Debt Service

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 2016. The debt service payment for the fiscal year being reported (2016) and future payment requirements, including interest, are as follows:

City of Snohomish Debt Service Obligations as of December 31, 2016

Year	General Obligation Bonds	Interest	Other Debt	Interest	Total Debt
2017	40,000	20,723	715,403	33,664	809,790
2018	40,000	18,943	715,403	30,087	804,433
2019	45,000	17,123	715,403	96,782	874,307
2020	45,000	15,053	715,403	22,346	797,802
2021	50,000	12,960	715,403	19,356	765,403
2022-2026	220,000	27,120	2,632,778	46,589	
2027-2031	-		523,081	3,739	523,081
Totals	440,000	111,920	6,732,874	252,564	4,574,816

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	0.031908%	1,713,610
PERS 2 and 3	0.040840%	2,056,262
LEOFF 1	0.005182%	(53,389)

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, 2016 - 270 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, 2016, there were damage claims and lawsuits pending against the City. However, management believes, and the City Attorney concurs based on information known to date, 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: 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 2016, the City of Snohomish financial responsibility and contribution is \$1,591 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 \$142,400 each year. The ILA is automatically renewed with no end contract date and is amended from time to time.

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, charges validly incurred under this agreement shall be returned to the parties to this agreement in proportion of 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 \$247,256 of December 31, 2016.

NOTE 10: 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. For the year ended December 31, 2016, The City of Snohomish received \$7,325 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 2016, \$90,000 in allocations were authorized from Fund 113.

NOTE 11: OTHER DISCLOSURES

Transportation Benefit District

Due to 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 Proposition No. 2

The Citizens of Snohomish, during the November 8, 2016 election, passed Proposition No. 2 to change the City's form of government from a Council-Manager form to a Mayor-Council form of government. A Mayor was elected to administer the City on November 7, 2017.

**City of Snohomish
Schedule of Liabilities
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	ULMT Bond Rivertrail	7/1/2025	480,000	-	40,000	440,000
263.98	Compensated Absences GO	1/1/2014	248,744	239,139	280,592	207,291
Total General Obligation Debt/Liabilities:			728,744	239,139	320,592	647,291
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability		2,715,339	1,054,533	-	3,769,872
263.82	SRF Loan	5/1/2015	275,974	-	275,974	-
263.82	PWTF Phase 1 CSO	5/1/2027	1,357,017	-	104,386	1,252,631
263.82	PWTF CTED WWTP	7/1/2028	1,564,062	-	120,313	1,443,750
263.82	PWTF Cemetary Creek 1	3/1/2022	385,694	-	55,099	330,595
263.82	PWTF Cemetary Creek 2	5/1/2024	3,257,296	-	361,922	2,895,374
263.82	PWTF Cemetary Creek 3	7/1/2027	884,211	-	73,684	810,527
259.12	Compensated Abs Proprietary	1/1/2014	84,402	139,216	137,920	85,698
Total Revenue and Other (non G.O.) Debt/Liabilities:			10,523,995	1,193,749	1,129,297	10,588,447
Total Liabilities:			11,252,739	1,432,888	1,449,889	11,235,737

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	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov