



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

## **Financial Statements Audit Report**

# **City of Arlington**

**Snohomish County**

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

**Published November 16, 2017**

**Report No. 1020145**





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

November 16, 2017

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,

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 Arlington  
Snohomish County  
January 1, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon October 31, 2017.

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

Pat McCarthy

State Auditor

Olympia, WA

October 31, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

### **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, 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 Arlington, 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.



## 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 October 31, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

October 31, 2017

## **FINANCIAL SECTION**

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

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>101 Street Fund</b>	<b>107 Growth Management Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	7,930,328	-	85,302	1,972,113
30880	Unreserved	16,361,247	1,905,839	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	14,292,972	11,436,724	-	-
320	Licenses and Permits	539,598	539,598	-	-
330	Intergovernmental Revenues	1,489,358	790,681	481,641	-
340	Charges for Goods and Services	18,109,995	1,212,958	47,557	284,400
350	Fines and Penalties	381,911	199,143	-	-
360	Miscellaneous Revenues	2,098,536	234,735	8,049	21,891
Total Revenues:		36,912,371	14,413,840	537,248	306,291
<b>Expenditures</b>					
510	General Government	2,167,877	1,736,229	-	-
520	Public Safety	10,714,909	7,910,736	-	-
530	Utilities	7,249,319	24,118	-	-
540	Transportation	3,576,202	-	916,513	-
550	Natural and Economic Environment	1,018,063	880,751	-	-
560	Social Services	4,919	4,919	-	-
570	Culture and Recreation	559,264	82,117	-	-
Total Expenditures:		25,290,553	10,638,871	916,513	-
Excess (Deficiency) Revenues over Expenditures:		11,621,817	3,774,969	(379,266)	306,291
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	712,010	-	-	-
397	Transfers-In	1,509,346	4,900	558,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	665,747	205,602	-	-
381, 395, 398	Other Resources	860,743	-	-	495,346
Total Other Increases in Fund Resources:		3,747,845	210,502	558,000	495,346
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	4,521,311	205,148	70,040	-
591-593, 599	Debt Service	4,422,361	1,083,241	-	-
597	Transfers-Out	1,509,346	962,918	-	53,701
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	778,844	152,538	-	-
581	Other Uses	713,951	-	-	169,648
Total Other Decreases in Fund Resources:		11,945,813	2,403,845	70,040	223,349
<b>Increase (Decrease) in Cash and Investments:</b>		<b>3,423,851</b>	<b>1,581,626</b>	<b>108,694</b>	<b>578,288</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	7,781,986	-	193,997	2,550,400
5088000	Unreserved	19,933,439	3,487,464	-	-
<b>Total Ending Cash and Investments</b>		<b>27,715,424</b>	<b>3,487,464</b>	<b>193,997</b>	<b>2,550,400</b>

The accompanying notes are an integral part of this statement.

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

		<b>108 Emer Med Servcs Fund</b>	<b>109 Stream Corri Rest Fund</b>	<b>114 Lodging Tax Fund</b>	<b>116 Cemetery Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	69,810	-
30880	Unreserved	155,589	29,423	-	12,690
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	1,675,517	-	143,991	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,290	-	-	-
340	Charges for Goods and Services	1,299,593	-	-	202,736
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	29,751	268	1,014	102
Total Revenues:		3,006,151	268	145,005	202,838
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	2,723,922	-	-	-
530	Utilities	-	-	-	256,721
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	6,748	130,564	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,723,922	6,748	130,564	256,721
Excess (Deficiency) Revenues over Expenditures:		282,229	(6,480)	14,441	(53,883)
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	22,868
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	18,641
381, 395, 398	Other Resources	169,648	-	-	-
Total Other Increases in Fund Resources:		169,648	-	-	41,508
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	1,806	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	3,431	-	-	-
581	Other Uses	495,346	-	-	-
Total Other Decreases in Fund Resources:		500,583	-	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(48,706)</b>	<b>(6,480)</b>	<b>14,441</b>	<b>(12,375)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	84,252	-
5088000	Unreserved	106,883	22,943	-	316
<b>Total Ending Cash and Investments</b>		<b>106,883</b>	<b>22,943</b>	<b>84,252</b>	<b>316</b>

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

		<b>303 REET 1 Fund</b>	<b>304 REET 2 Fund</b>	<b>305 Capital Facil/Bldg Fund</b>	<b>310 Transport Improv Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	224,520	112,820	-	-
30880	Unreserved	-	-	50,004	45,300
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	518,615	518,125	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	57,984
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,764	3,599	-	10,246
Total Revenues:		521,379	521,724	-	68,229
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	80,251	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	19,874
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		80,251	-	-	19,874
Excess (Deficiency) Revenues over Expenditures:		441,128	521,724	-	48,356
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	50,000	53,701
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	1,297
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	50,000	54,998
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	147,033
591-593, 599	Debt Service	48,800	284,471	-	-
597	Transfers-Out	372,827	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	1,622
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		421,627	284,471	-	148,654
<b>Increase (Decrease) in Cash and Investments:</b>		<b>19,501</b>	<b>237,253</b>	<b>50,000</b>	<b>(45,300)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	244,022	350,073	-	-
5088000	Unreserved	-	-	100,004	-
<b>Total Ending Cash and Investments</b>		<b>244,022</b>	<b>350,073</b>	<b>100,004</b>	<b>-</b>

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

		<b>311 Park Improvement Fund</b>	<b>312 Library Capital Impr Fund</b>	<b>316 Cemetery Cap Impr Fund</b>	<b>320 Equipment Rental - Repl Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	420	13,977	5,723	1,557,562
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	96,843	-	-	9,759
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	5,106	140	57	716,497
Total Revenues:		101,949	140	57	726,256
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		101,949	140	57	726,256
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	712,010
397	Transfers-In	304,827	-	-	43,734
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	16,452
Total Other Increases in Fund Resources:		304,827	-	-	772,195
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	255,196	-	-	1,444,588
591-593, 599	Debt Service	152,000	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		407,196	-	-	1,444,588
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(420)</b>	<b>140</b>	<b>57</b>	<b>53,863</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	-	14,117	5,780	1,611,425
<b>Total Ending Cash and Investments</b>		<b>-</b>	<b>14,117</b>	<b>5,780</b>	<b>1,611,425</b>

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

		<b>401 Water/Sewer Utility Fund</b>	<b>402 Airport Fund</b>	<b>412 Storm Water Mgmt Fund</b>	<b>504 P W Facilities M&amp;O Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	4,240,692	962,090	-	-
30880	Unreserved	10,274,859	1,404,692	765,931	139,237
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	24,161	9,061	17,939
340	Charges for Goods and Services	11,024,395	3,119,091	903,682	5,096
350	Fines and Penalties	145,595	31,070	6,103	-
360	Miscellaneous Revenues	153,324	75,193	8,659	824,452
Total Revenues:		11,323,314	3,249,515	927,505	847,487
<b>Expenditures</b>					
510	General Government	-	-	-	431,648
520	Public Safety	-	-	-	-
530	Utilities	6,457,276	-	511,204	-
540	Transportation	-	2,236,403	-	403,413
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	477,147
Total Expenditures:		6,457,276	2,236,403	511,204	1,312,207
Excess (Deficiency) Revenues over Expenditures:		4,866,038	1,013,112	416,301	(464,721)
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	471,317
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	10,458	406,868	7,515	15,366
381, 395, 398	Other Resources	48,957	130,340	-	-
Total Other Increases in Fund Resources:		59,416	537,207	7,515	486,683
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,783,538	437,663	150,951	27,154
591-593, 599	Debt Service	2,738,745	112,254	1,043	-
597	Transfers-Out	3,400	-	115,000	1,500
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	11,471	609,143	179	460
581	Other Uses	-	-	48,957	-
Total Other Decreases in Fund Resources:		4,537,155	1,159,060	316,131	29,114
<b>Increase (Decrease) in Cash and Investments:</b>		<b>388,298</b>	<b>391,260</b>	<b>107,685</b>	<b>(7,152)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	3,518,458	564,629	-	-
5088000	Unreserved	11,385,392	2,193,412	873,616	132,086
<b>Total Ending Cash and Investments</b>		<b>14,903,849</b>	<b>2,758,041</b>	<b>873,616</b>	<b>132,086</b>

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

		<b>702 Cem Endowment Fund</b>
		<hr/>
<b>Beginning Cash and Investments</b>		
30810	Reserved	262,980
30880	Unreserved	-
388 / 588	Prior Period Adjustments, Net	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	10,487
350	Fines and Penalties	-
360	Miscellaneous Revenues	2,688
Total Revenues:		<hr/> 13,175
<b>Expenditures</b>		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> -
Excess (Deficiency) Revenues over Expenditures:		<hr/> 13,175
<b>Other Increases in Fund Resources</b>		
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:		<hr/> -
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	-
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:		<hr/> -
<b>Increase (Decrease) in Cash and Investments:</b>		<hr/> <b>13,175</b>
<b>Ending Cash and Investments</b>		
5081000	Reserved	276,155
5088000	Unreserved	-
<b>Total Ending Cash and Investments</b>		<hr/> <b>276,155</b>



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

		<b>Total for All Funds (Memo Only)</b>	<b>622 Cem Pre- Need Trust</b>	<b>680 Transportation Benefit District</b>
308	Beginning Cash and Investments	513,264	26,542	486,722
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	1,291,669	3,484	1,288,185
380-390	Other Increases and Financing Sources	-	-	-
510-570	Expenditures	1,465,494	520	1,464,974
580-590	Other Decreases and Financing Uses	80,937	-	80,937
	Net Increase (Decrease) in Cash and Investments:	(254,761)	2,964	(257,725)
508	Ending Cash and Investments	258,502	29,506	228,996

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

## **NOTES TO FINANCIAL STATEMENTS**

### **CITY OF ARLINGTON**

**Period Ending December 31, 2016**

#### **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 2016 are shown on the following page, which includes the final budget amendment adopted December 19, 2016.

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	14,962,651	12,977,662	1,984,989
Mandatory Reserve Fund	0	0	0
Program Development Funds	242,300	65,054	177,246
Total 001 - General Fund	15,204,951	13,042,716	2,162,235
101 - Street Fund	2,576,979	986,553	1,590,426
105 - Health Services Fund	0	0	0
107 - Growth Management Fund	784,000	223,349	560,651
108 - Emergency Med Services Fund	3,343,502	3,224,505	118,997
109 - Stream Corri Rest Fund	7,000	6,748	252
114 - Lodging Tax Fund	134,663	130,564	4,099
116 - Cemetery Fund	296,624	256,721	39,903
303 - REET 1 Fund	599,930	501,878	98,052
304 - REET 2 Fund	285,600	284,471	1,129
305 - Capital Facil/Bldg Fund	0	0	0
310 - Transport Improv Fund	4,646,570	168,528	4,478,042
311 - Park Improvement Fund	1,610,473	407,196	1,203,277
312 - Library Improvement Fund	0	0	0
316 - Cemetery Cap Improv Fund	0	0	0
320 - Equip Rental Replacement Fund	1,542,614	1,444,588	98,026
401 - Water/Sewer Utility Fund			
Water/Sewer Utility Fund	9,668,592	7,999,805	1,668,787
Water Improvement Fund	2,184,570	1,867,832	316,738
Sewer Improvement Fund	458,301	199,909	258,392
P W-Utilities Admin Fund	927,868	890,168	37,700
W/S Bond Reserve	36,716	36,716	0
Total 401 - Water/Sewer Utility Fund	13,276,047	10,994,430	2,281,617
402 - Airport Fund			
Airport Fund	4,044,229	3,364,189	680,040
Airport Reserve Fund	250,000	0	250,000
Airport CIP (FAA) Fund	480,000	31,274	448,726
Total 402 - Airport Fund	4,774,229	3,395,463	1,378,766
412 - Storm Water Mgmt Fund			
Storm Water CIP Fund	1,550,000	150,951	1,399,049
Storm Water Mgmt Fund	1,047,174	676,383	370,791
Total 412 - Storm Water Mgmt Fund	2,597,174	827,334	1,769,840
504 - P W Facilities M&O Fund	1,346,904	1,341,321	5,583

622 - Cemetery Pre-Need Trust	3,000	520	2,480
680 - Transportation Benefit District	1,589,848	1,545,911	43,937
702 - Cemetery Endowment Fund	0	0	0
<b>Totals</b>	<b>54,620,108</b>	<b>38,782,796</b>	<b>15,837,312</b>

The variance of \$1,590,426 in the Street Fund is because of expenses related to the transportation benefit district being budgeted in the Street Fund but expensed in the Transportation Benefit District (TBD) Fund. At the time the 2016 budget was adopted, we were under the assumption that capital outlay expenses could not be directly expensed in the TBD. Subsequent to that assumption, the Budgeting, Accounting and Reporting System Manual provided guidance that capital expenses could be directly expensed to the TBD. As a result of that guidance, the Streets Fund did not utilize the budget related to TBD expenses and came in under budget.

The variance of \$4,478,042 in the Transportation Improvement Fund is because we budgeted two projects that were contingent on grant funding, Arlington Valley Road and 173<sup>rd</sup> Phase 3. We did not get grant funding for the 173<sup>rd</sup> project. The Arlington Valley Road project did get grant funding but the right of way acquisition portion of the project has delayed the project.

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 300 hours. (American Federation of State, Counties and Municipal Employees (AFSCME) Union, the Arlington Police Officer's Association (APOA) Union Employees, International Association of Fire Fighters (IAFF) and Regular Non-represented employees).

Regular Full-Time and (AFSCME) employees may accumulate Sick leave up to 1,200 hours. The Arlington Police Officer's Association (APOA) may accumulate sick leave up to 1,000 hours. The local International Association of Fire Fighters (IAFF) Union employees may accumulate sick leave up to 1,440 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 time for employees hired on or before December 31, 2013 and 240 hours for employees hired on or after January 1, 2014. The maximum amount of unused sick leave to be paid to the employee upon separation of the City will be 350 hours for employees hired on or before December 31, 2013 and 330 hours for employees hired on or after January 1, 2014.

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 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.

#### 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.



When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

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>12/31/16 Balance</u>
101 Street Fund	Street repair/construction	\$193,997
107 Growth Fund	Infrastructure improvements	\$2,550,400
114 Lodging Tax Fund	Tourism promotion	\$84,252
303 REET 1 Fund	Capital improvement	\$244,022
304 REET 2 Fund	Capital improvement	\$350,073
401 Water/Sewer Fund	Debt reserves	\$3,518,458
402 Airport Fund	Debt reserves/FAA projects	\$564,629
702 Cemetery Endowment	Preservation of cemetery	\$276,155

## 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, 2016 are as follows:

Type of Investment	City's Own Investments	Investments held by City as an agent for other local governments, individuals or private organizations	Balance
L.G.I.P	\$1,527,432		\$1,527,432
Reserve Account	\$1,501,824		\$1,501,824
U.S. Government Securities	\$18,711,461		\$18,711,461
Municipal Securities	\$1,822,891		\$1,822,891
Certificates of Deposit	\$1,024,915		\$1,024,915
Total	\$24,588,523		\$24,588,523

## 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 10<sup>th</sup> and 20<sup>th</sup> 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 2016 was \$1.8639 per \$1,000 on an assessed valuation of \$2,130,154,144 for a total regular levy of \$3,970,410.40. The city also levied \$0.4418 per \$1,000 for Emergency Medical Services (EMS) for a total levy of \$941,076.24. (per the Snohomish County Assessor's Office Annual Report for 2016 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 and 2016 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 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. Due to ongoing contract negotiations and non-payment for 2015 services from Fire District 21, the EMS Fund did not have adequate funds to repay the loan in 2015. In 2016, while contract negotiations with Fire District 21 continued, the EMS Fund took an additional loan to meet cash flow needs. Interest accrued on the loans at the monthly interest rate of the Local Government Investment Pool (LGIP). All loans, including accrued interest, between the EMS Fund and Growth Fund were paid in full by December 31, 2016.

The following table displays interfund loan activity during 2016.

<u>Borrowing</u> <u>Fund</u>	<u>Lending</u> <u>Fund</u>	<u>Loan Balance</u> <u>01/01/2016</u>	<u>New</u> <u>Loans</u>	<u>Repayments</u>	<u>Principle Balance</u> <u>12/31/2016</u>
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General	Airport	\$2,071,562	\$ 0	\$75,628	\$1,995,934
Storm water	Water CIP	208,512	0	48,957	159,555
EMS	Growth	325,698	169,648	495,346	0

#### 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, 2016. 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. The second and third draw were made in 2016 totaling \$712,010 exhausting the line of credit. 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
2017	1,015,155	551,176	474,315	20,870	1,652,457	552,168	4,266,141
2018	1,051,664	513,672	30,124	590	1,672,349	527,398	3,795,797
2019	1,045,477	477,097			1,692,826	502,043	3,717,443
2020	1,013,744	440,227			1,787,169	474,934	3,716,074
2021	1,003,041	403,380			1,837,430	443,833	3,687,684
2022-2026	4,263,901	1,503,548			9,614,738	1,718,408	17,100,595
2027-2031	3,175,000	743,138			6,140,738	821,812	10,880,688
2032-2036	1,850,000	149,800			945,061	295,689	3,240,550
2037-2040					745,954	60,532	806,486
TOTALS	14,417,982	4,782,038	504,439	21,460	26,088,722	5,396,817	51,211,458

#### 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](http://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](http://www.ofm.wa.gov).

At June 30, 2016, 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	.044111	\$2,368,968
PERS 2/3	.056451	\$2,842,263
LEOFF 1	.011478	(\$118,256)
LEOFF 2	.184301	(\$1,071,950)
VFFRPF	.37	(63,655)

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 \$726,339 on December 31, 2016.

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	\$1,078	.75%
2017	\$97,934	\$1,617	2.7%

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

Budget monitoring information can be obtained from Crystil Wooldridge, Finance Director, City of Mountlake Terrace, 6100 219<sup>th</sup> Street SW, Mountlake Terrace WA 98043 (or email: [cwooldridge@ci.mlt.wa.us](mailto:cwooldridge@ci.mlt.wa.us)) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4<sup>th</sup> 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 2016 was \$953,596 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 Group Health, 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

### Biennial Budget



On March 7, 2016, City Council approved Ordinance 2016-005 establishing a biennial budget process. The biennial budget authorizes spending on a two year basis. On November 21, 2016, the City Council adopted Ordinance 2017-020, the City's first biennial budget.

### Health Services Fund

On December 8, 2016, the City received a \$10,000 donation from the Cascade Valley Hospital Foundation for the specific purpose of providing immediate basic needs (i.e. hygiene, transportation, a meal) for those individuals addicted to opiates and in transit to a rehabilitation facility. As the donor outlined specific uses of these funds, the City created a special purpose fund so these funds can be accounted for separately. For purposes of financial reporting, this fund is considered a sub-fund within the General Fund.

### Fund Closures

Two Funds were closed at year end, Fund 212 – LID #21 and Fund 501- Equipment Rental M&O. Fund 212 was used to collect the outstanding property assessments related to the local improvement district. The last activity in this fund occurred in February 2015. Fund 501 was used to pay fuel, insurance and maintenance on vehicles/equipment for all City departments. The fund was closed so that these costs could be directly expensed within each department.

### Equipment Rental and Replacement Fund

The Equipment Rental and Replacement Fund (Fund 503) is used to accumulate reserves from all city departments for the purpose of replacing vehicles and equipment at the end of their useful life. The fund has previously been reported as Fund 503 which is categorized as an internal service fund. In preparation of the 2016 financial statements, finance staff reviewed the BARS manual and determined that the fund should be classified as a capital projects fund as the purpose of the fund is for capital outlay. For 2016, the fund number was changed from 503 to 320.

### 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 2016 and a total of \$36,133 was paid out for those benefits during the year.

### Construction Commitments

The City has active construction projects as of December 31, 2016. At year end, the City's commitments are as follows;



Project	Spent as of 12/31/16	Remaining Commitment
173 <sup>rd</sup> St.*	\$823	\$1,684,447
Arlington Valley Road**	\$141,526	\$2,818,474
Haller Park Restrooms	\$474	\$257,998
Quake Field Project	\$250,560	\$949,440
Taxiway C Lighting	\$25,579	\$154,420

\*The 173<sup>rd</sup> project is contingent upon grant funding.

\*\*The Arlington Valley Road project is contingent upon receiving right of way access.

### Contingencies and Litigations

As of December 31, 2016 through May 15, 2017, there were no known contingencies or litigations having a material impact to the financial statements.

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

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	2007 LTGO - N Olympic Ave	12/1/2027	2,480,000	-	180,000	2,300,000
251.11	2010 LTGO - Refunding/Fire St.	12/1/2030	3,125,000	-	370,000	2,755,000
251.11	2010 LTGO - Refunding/800 MHZ	12/1/2021	220,000	-	40,000	180,000
251.11	2014 LTGO-Refunding 2004/Police Station	12/1/2034	7,180,000	-	85,000	7,095,000
251.11	2014 LTGO-Police Vehicles	10/1/2024	371,864	-	101,104	270,760
251.11	2015 LTGO - Fire Apparatus	6/1/2025	784,765	712,010	74,554	1,422,221
251.11	2014 LTGO-Refunding 2009/Airport Expansion	12/1/2034	440,000	-	45,000	395,000
263.61	Graafstra Note-Park Land	4/1/2040	3,200,000	-	-	3,200,000
263.51	Lease - Computers - 810-6523252-003	2/1/2018	47,228	-	15,027	32,201
263.51	Lease - Police Vehicles	11/1/2016	34,682	-	34,682	(0)
<b>Total General Obligation Debt/Liabilities:</b>			<b>17,883,539</b>	<b>712,010</b>	<b>945,367</b>	<b>17,650,182</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/30/1899	981,649	261,852	-	1,243,501
252.11	2007 W/S Refunding	12/1/2017	975,000	-	550,000	425,000
252.11	2003 Revenue Bonds-Airport	8/1/2018	126,111	-	46,531	79,580
263.82	1996 PWTF Loan-PW-5-96-791-002	7/1/2016	90,804	-	90,803	0
263.82	2006 PW Loan WWTP - PW-06-962-002	7/1/2026	4,329,014	-	393,547	3,935,467
263.82	2007 PW Loan WWTP - PR07-951-001	7/1/2027	631,576	-	52,632	578,945
263.82	2008 PW Loan WWTP - PC08-951-001	7/1/2028	6,882,352	-	529,412	6,352,940
263.82	Recovery Act Loan-DOE Loan L1000024	7/1/2029	4,825,190	-	250,240	4,574,950
263.82	Base Revolving Fund Loan-DOE Loan L1000025	7/1/2029	7,853,718	-	407,303	7,446,415
264.30	Pension Liabilities		3,802,050	1,409,182	-	5,211,232
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>30,497,465</b>	<b>1,671,034</b>	<b>2,320,467</b>	<b>29,848,032</b>
<b>Total Liabilities:</b>			<b>48,381,004</b>	<b>2,383,044</b>	<b>3,265,834</b>	<b>47,498,214</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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