



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Snohomish

Snohomish County

For the period January 1, 2013 through December 31, 2013

Published October 20, 2014

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Washington State Auditor
Troy Kelley

October 20, 2014

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,

TROY KELLEY
STATE AUDITOR

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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, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 22, 2014.

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 or permitted 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 October 6, 2014.

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.



TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Financial Statements

**City of Snohomish
Snohomish County
January 1, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 9.

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 using accounting practices prescribed or permitted by Washington State statutes and 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, 2013, 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, 2013, 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 September 22, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

September 22, 2014

Financial Section

**City of Snohomish
Snohomish County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

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Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Fund	102 Streets	104 Park Impact Fee
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	9,069,900	11,275	151,848	187,510
30880	Beg Fund Bal-Unreserved	2,492,738	1,926,465	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	6,284,741	5,923,052	0	0
320	Licenses & Permits	214,626	202,776	0	0
330	Intergovernmental Revenues	1,796,925	187,562	190,500	0
340	Charges for Goods and Services	11,929,783	1,134,497	0	166,700
350	Fines & Penalties	94,124	94,124	0	0
360	Miscellaneous Revenues	171,387	34,881	3,788	139
Total Operating Revenues:		20,491,585	7,576,891	194,289	166,839
Operating Expenditures					
510	General Government	2,583,350	2,277,878	0	0
520	Public Safety	3,016,725	3,015,850	0	0
530	Utilities	5,488,100	0	0	0
540	Transportation	2,016,542	0	707,174	0
550	Natural and Economic Environment	400,449	400,449	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	393,283	343,220	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		13,898,448	6,037,398	707,174	
Net Operating Increase (Decrease):		6,593,136	1,539,494	-512,886	166,839
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	2,024,997	11,669	5,435	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	2,996,713	0	535,000	366,000
Total Nonoperating Revenues:		5,021,710	11,669	540,435	366,000
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	1,486,958	55,595	44	0
591-593	Debt Service	1,811,407	0	0	0
594-595	Capital Expenditures	5,000,541	893,069	0	718,776
597	Transfers-Out	2,282,557	863,157	0	0
Total Nonoperating Expenditures:		10,581,462	1,811,821	44	718,776
Increase (Decrease) in Cash and Investments		1,033,383	-260,657	27,505	-185,937
Ending Cash and Investments					
50810	End Fund Bal-Reserved	10,098,020	11,286	179,354	1,574
50880	End Fund Balance-Unreserved	2,498,147	1,665,693	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		107 Visitor Promotion	108 PBIA	110 Real Property Reserve	113 Police Operational Reserve
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	11,688	29,952	37,757	56,615
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	7,665	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	11	23,023	30,038	53
Total Operating Revenues:		7,676	23,023	30,038	53
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	875
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	8,918	29,500	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		8,918	29,500		875
Net Operating Increase (Decrease):		-1,242	-6,477	30,038	-822
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	30,794	0
597	Transfers-Out	0	0	37,000	0
Total Nonoperating Expenditures:				67,794	
Increase (Decrease) in Cash and Investments		-1,242	-6,477	-37,756	-822
Ending Cash and Investments					
50810	End Fund Bal-Reserved	10,696	23,475	1	55,793
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		117 Real Estate Excise Tax	125 Street Impact Reserve	205 Debt Service Fund	206 LID Guarantee
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	387,083	121,251	612	9,632
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	297,130	0	56,894	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	52,614	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	336	155	55	0
Total Operating Revenues:		297,465	52,769	56,949	
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:					
Net Operating Increase (Decrease):		297,465	52,769	56,949	0
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	2,635	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	280,157	0
Total Nonoperating Revenues:				282,792	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	336,902	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	471,000	12,400	0	0
Total Nonoperating Expenditures:		471,000	12,400	336,902	
Increase (Decrease) in Cash and Investments		-173,535	40,369	2,839	0
Ending Cash and Investments					
50810	End Fund Bal-Reserved	213,549	161,620	3,451	9,632
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		214 CLID 86-1/87 -1	303 River Trail Construction	310 Municipal Capital Projects	311 Street Improvements
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	647	24,996	-109,083	41,566
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	595,024	258,087
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	20	45	47
Total Operating Revenues:			20	595,069	258,135
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	5,609	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:				5,609	
Net Operating Increase (Decrease):		0	20	589,460	258,135
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	90,460
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	113,700	804,613
Total Nonoperating Revenues:				113,700	895,073
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	142,819	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	0	322,722	1,202,215
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:				465,541	1,202,215
Increase (Decrease) in Cash and Investments		0	20	237,619	-49,007
Ending Cash and Investments					
50810	End Fund Bal-Reserved	647	25,016	128,536	-7,442
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		401 Utility Capital Projects	402 Utility Capital Projects	403 Solid Waste	404 Utility Capital Projects
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	1,328,449	5,387,821	443	1,389,836
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	10,750	1,100	0	0
330	Intergovernmental Revenues	255,285	169,569	0	140,898
340	Charges for Goods and Services	2,216,977	4,556,094	1,827,775	1,039,684
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	64,804	11,679	10	1,605
Total Operating Revenues:		2,547,815	4,738,442	1,827,784	1,182,187
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	1,895,472	1,738,720	1,769,772	84,136
540	Transportation	0	0	0	875,894
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		1,895,472	1,738,720	1,769,772	960,030
Net Operating Increase (Decrease):		652,343	2,999,722	58,012	222,157
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	184,063	1,651,694	65,386	4,680
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	45,971	518,791	0	195,628
Total Nonoperating Revenues:		230,034	2,170,485	65,386	200,308
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	1,288,500	0	0
591-593	Debt Service	94,600	1,379,905	0	0
594-595	Capital Expenditures	92,169	1,483,790	0	186,196
597	Transfers-Out	175,000	505,000	0	219,000
Total Nonoperating Expenditures:		361,769	4,657,195		405,196
Increase (Decrease) in Cash and Investments		520,608	513,012	123,398	17,269
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,849,056	5,900,832	123,842	1,407,103
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		501 City Shop	502 Information Services	503 Self-insurance Fund	505 Equipment Replacement
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	267,129	223,194	6,413	69,537
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	481,549	421,524	32,370	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	347	246	8	100
Total Operating Revenues:		481,896	421,770	32,377	100
Operating Expenditures					
510	General Government	0	279,288	26,183	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	433,474	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	6,036
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		433,474	279,288	26,183	6,036
Net Operating Increase (Decrease):		48,422	142,482	6,195	-5,936
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	4,094	592	0	4,288
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	55,689	0	81,164
Total Nonoperating Revenues:		4,094	56,281		85,452
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Expenditures	0	70,809	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:			70,809		
Increase (Decrease) in Cash and Investments		52,516	127,954	6,195	79,516
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	319,645	351,148	12,607	149,053

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	602 Miller Library Trust	603 Senior Center Reserve Fund	604 Carnegie Restoration Fund
308	Beginning Cash and Investments	371,556	5,763	668	5,789
388 and 588	Prior Period Adjustments, net	0	0	0	0
310-360	Revenues	779,305	0	0	23,888
380-390	Other Increases and Financing Sources	0	0	0	0
510-570	Expenditures	867	0	0	867
580-590	Other Decreases and Financing Uses	470,913	0	0	23,700
Increase (Decrease) in Cash and Investments		307,525	0	0	-679
508	Ending Cash and Investments	679,081	5,763	668	5,110

BARS Code		605 Gateway Fund	621 UGA Expansion Trust	677 Transportation Bene District
308	Beginning Cash and Investments	876	1,826	356,635
388 and 588	Prior Period Adjustments, net	0	0	0
310-360	Revenues	1	0	755,416
380-390	Other Increases and Financing Sources	0	0	0
510-570	Expenditures	0	0	0
580-590	Other Decreases and Financing Uses	0	0	447,213
Increase (Decrease) in Cash and Investments		1	0	308,203
508	Ending Cash and Investments	877	1,826	664,838

The accompanying notes are an integral part of this Statement.

Notes to the Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Snohomish was incorporated on June 30, 1890 and operates under the laws of the State of Washington, applicable to a Category II city, with a Council/Manager form of government. The City is a general-purpose government and provides public safety, fire prevention, street improvements, parks and recreation, water/sewer/stormwater/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 using the revenue and expenditure classifications, statements and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund

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

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified 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 Project 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.

PROPRIETARY FUND TYPES

Enterprise Funds

These funds account for operations that provide goods and services to the general public and are supported primarily through user fees. The City of Snohomish operates water / sewer / storm water / solid waste utility operations.

Internal Service Funds

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

FIDUCIARY FUND TYPES

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

Private-Purpose Trust Funds

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

Agency Funds

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

b. Basis of Accounting

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

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

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. Budget

The City adopts annual appropriated budgets for the Current Expense, Special Revenue, Debt Service, Capital Projects Funds, Proprietary Funds, and Trust and Agency Funds. Annual appropriated budgets are adopted at the fund level, except in the general fund, where budgets are adopted at the department level and the budgets constitute the legal authority for expenditures at that level. Annual appropriations lapse at the fiscal period end.

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

The appropriated and actual expenditures for the legally adopted budgets were as follows:

	Final			
	Appropriated	Actual		
Fund/Department	Amounts	Expenditures	Variance	
General Fund:			0	
City Council	153,143	113,976.	39,167	i
City Manager	1,066,397	1,043,930	22,467	
Support Services	521,321	499,189	22,132	
Law Enforcement	3,540,701	3,134,767	405,934	ii
Planning & Permitting	401,116	392,569	8,547	
Public Works-Engineering	1,879,047	1,766,159	112,888	iii
Non-Departmental	815,797	843,033	(27,236)	
Total General Fund	8,377,522	7,793,623	583,899	
Streets	797,892	707,174	90,718	iv
Visitor Promotion	6,200	6,200	0	
PBIA	35,000	29,500	5,500	
Police Operational Reserve	7,000	875	6,125	
Real Estate Excise Tax	371,000	371,000	0	
Street Impact Reserve	12,400	12,400	0	
Debt Service Fund	336,972	336,902	70	
River Trail Construction	14,500	0	14,500	v.
Municipal Capital Projects	486,000	328,331	157,669	v.
Street Improvements	1,805,213	1,202,215	602,998	v.
Water Utility	2,430,904	2,169,876	261,028	
Wastewater Utility	4,123,977	4,015,951	108,026	
Solid Waste	1,860,292	1,769,772	90,520	

	Final			
	Appropriated	Actual		
Fund/Department	Amounts	Expenditures	Variance	
Stormwater Utility	1,174,821	1,179,030	(4,209)	vi.
Utility Capital Projects	2,395,883	1,645,754	750,129	v.
Trunkline	958,503	955,605	2,898	
Utility Equip. Replace Res	70,000	52,167	17,833	vii
Utility System Replacement	479,100	0	479,100	
City Shop	525,583	433,474	92,109	viii
Information Services	444,524	350,097	94,427	vii
Self-insurance Fund	59,000	26,183	32,817	
Equipment Replacement	7,500	6,036	1,464	vii
Carnegie Restoration Fund	24,700	24,567	133	
Transportation Bene District	447,213	447,213	0	v.

Notes

- (i) City Council - professional services expenditures below budget.
- (ii) Law Enforcement - Jail and court fees expenditures below budget.
- (iii) Public Works Engineering personnel costs under budget / facilities and parks repairs , utilities and professional services under budget
- (iv) Streets-Intergovernmental services, repairs and supplies and personnel costs under budget
- (v) Funds accounting for construction projects subject to construction scheduling resulting in costs under budget in one year to be expended in the following year
- (vi) Storm water – professional and intergovernmental services, transfers for construction projects, supplies and repairs and maintenance below budget and administrative personnel costs slightly above budget.
- (vii) Funds accounting for equipment replacement expenditures operated below budget.
- (viii) City shop personnel costs, fuel costs, utility and repair costs expenditures below budget.

Budgeted amounts are authorized to be transferred between departments within any fund and object classes within departments; however, any 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 Council.

d. Cash

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.

e. Deposits

The City's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

f. Investments See Investment Note #3.

g. Capital Assets

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

h. Compensated Absences

Annual leave may be accumulated up to 30 days and is payable upon separation or retirement.

i. Long Term Debt See Debt Service Requirements Note #6.

j. Other Financing Sources or Uses

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

k. Risk Management

The city of Snohomish is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 153 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. The deductible for property coverage is \$5,000 and for auto coverage the deductible is \$1,000. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

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

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

I. Fund Balance-Reserved and Non-Reserved.

Fund balances are classified as either reserved or unreserved. Reserved balances are the amounts of cash and investments not available due to the restrictions imposed on them by external parties (grantors) and/or due to internal commitments. Internal reservations are those imposed by the city council through a formal action such as ordinances or resolutions.

The ending fund balance of \$12,098,303 consists of \$9,600,156 in reserved and \$2,498,147 in unreserved funds. Restricted funds typically consist of special revenue funds (funds 100-199), capital projects funds (funds 300's) and enterprise funds (funds 400-499). The revenue sources are restricted by Washington State law or by City Council ordinance. For example, revenues generated in the water, wastewater and storm water enterprise funds are reserved specifically to cover the costs of the utilities. Similarly park impact fees and traffic impact fees are restricted in use for approved parks and streets projects.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City.

NOTE 3: INVESTMENTS AND DEPOSITS

The City's investments are insured, registered or held by the City or it's agent in the City's name. Investments are presented at their cost basis. Investments at December 31, 2013 are as follows:

Type of Investment	City	Trust & Agency	Total
Local Gov't Invest. Pool	\$10,456,884	\$679,081	\$11,135,965
U.S. Gov't Securities	497,864	0	497,864
Other Banks	2,023,030	0	2,023,030
Total	\$12,977,778	\$679,081	\$13,656,859

NOTE 4: PROPERTY TAXES

The County Treasurer for Snohomish County acts as an agent to collect property taxes levied in their respective county for all taxing authorities.

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

The City's regular levy for 2013 was \$1.128 per \$1,000 on an assessed valuation of \$948,367,830 for a regular levy of \$1,069,536.

The City's General Obligation bond levies for 2013 were \$0.0679 per \$1,000 on an assessed valuation of \$826,011,003 for a bond levy of \$56,143.

The City has a banked capacity of \$1,061,498 This amount represents property tax levies forgone in prior years. The banked capacity may be levied in future years.

NOTE 5: INTERFUND LOANS AND ADVANCES

The following table displays inter fund loan activities during 2013.

¹ Borrowing Fund	Lending Fund	Balance 1/1/2013	New Loans	Payments	Balance 12/31/2013
402	473	\$1,288,500	\$0	\$1,288,500	\$0
Totals		\$1,288,500	\$0	\$1,288,500	\$0

1. The borrowing fund for managerial purposes in the general ledger is Fund 433-Cemetery Creek Trunkline
A loan repayment of \$1,288,500 was made in 2013 bringing loan to a paid in full status.

NOTE 6: DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the City and summarizes the City’s debt transactions for 2013. The debt service payment for the fiscal year being reported (2013) and future payment requirements, including interest, are as follows:

	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2013	141,875	135,000	1,360,418	1,637,293
2014	141,200	134,500	1,357,763	1,633,463
2015	80,233	134,900	1,484,016	1,699,149
2016	62,483	135,150	1,028,618	1,226,251
2017	60,723	134,250	749,068	944,041
2018-2022	304,638	581,350	3,691,682	4,577,670
2023-2027	186,560	292,000	2,249,182	2,727,742
2028-2032	0	292,000	225,822	517,822
2033-2036	0	233,600	0	233,600
TOTALS	\$977,712	\$2,072,750	\$12,146,569	\$15,197,031

NOTE 7: 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.

NOTE 8: CONTINGENCIES AND LITIGATION

As of December 31, 2013, there were damage claims and lawsuits pending against the City. However, management believes, and the City Attorney concurs, neither the potential liability from a single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits would materially affect the financial condition of the City.

NOTE 9: SUBSEQUENT EVENT

The City was issued a finding, report no. 1008487, from the WA State Auditor on September 28, 2012 covering audit period January 1, 2011 through December 31, 2011 which identified deficiencies considered to be material weaknesses related to the ARRA-Public Safety Partnership and Community Policing Grants (Recovery Act). The city has worked diligently to rectify the weaknesses and has since been issued a letter of closure from the Department of Justice dated April 16, 2014.

NOTE 10: COMPONENT UNIT - SNOHOMISH TRANSPORTATION BENEFIT DISTRICT

On September 21, 2010, the Snohomish City Council enacted Ordinance 2197, establishing the Snohomish Transportation Benefit District comprised of the corporate limits of the City. The District was created under the authority provided by RCW 35.21.

The governing board or “Board” of the transportation benefit district is the Snohomish City Council. The City and District have entered into an inter-local agreement whereby the funds generated by the transportation benefit district are transferred to the City and used for transportation improvements that preserve, maintain, and operate the existing transportation infrastructure of the City. The District funds are provided by a sales tax increase approved by the City voters in an election held in August of 2011. Additional information about the City of Snohomish Transportation Benefit District can be obtained from the City’s website at www.snohomishWA.gov.

NOTE 11: RELATED PARTIES

The City contracted in 2009 with the law firm of Foster Pepper PLLC, for bond council services. City Councilmember Greg Guedel was elected in November 2009 for the four year term 2010-2013. Councilmember Guedel is a partner in Foster Pepper. The contract was entered into prior to the election. The City paid this vendor \$38,512 for services in 2013.

City of Snohomish

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	251.11	ULMT Bond-Rivertail/800 MHZ	7/1/2025	645,000		55,000	590,000
	251.12	ULMT GO Bond 1995 Fire Station	7/1/2114	105,000		50,000	55,000
	259.11	Compensated Absences Governmental		246,184	249,543	301,165	194,562
	263.91	Bank Loan Engineering Building	6/5/2013	188,079	0	188,079	0
Total General Obligations:				1,184,263	249,543	594,244	839,562
Revenue Obligations							
	263.82	Federal Home Loan WWTP	12/1/2021	532,000		50,000	482,000
	263.82	RECD Loan WWTP	10/1/2036	799,705		17,538	782,167
	263.82	SRF Loan #L9400002	5/1/2015	1,931,815		551,947	1,379,868
	263.82	PWTF Loan Phase 1 CSO Improvement	5/1/2027	1,670,175		104,386	1,565,789
	263.82	PWTF Loan Comp Water System Plan	9/1/2014	54,000		18,000	36,000
	263.82	PWTF Loan CTED WWTP Upgrades	7/1/2028	1,925,000		120,313	1,804,688
	263.82	PWTF Loan Cemetary Creek Trunk Sewer 1	3/1/2022	550,990		55,099	495,892
	263.82	PWTF Loan Cemetary Creek Trunk Sewer 2	5/1/2024	4,343,061		361,922	3,981,140
	263.82	PWTF Loan Cemetary Creek Trunk Sewer 3	7/1/2027	1,105,263		73,684	1,031,579
	259.12	Compensated Absences Proprietary		41,217	102,243	86,790	56,670
Total Revenue Obligations:				12,953,226	102,243	1,439,679	11,615,793
Total Liabilities:				14,137,489	351,786	2,033,923	12,455,355

The accompanying notes to the financial statements are an integral part of this schedule

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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