



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Snohomish

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published September 28, 2015

Report No. 1015268





Washington State Auditor's Office

September 28, 2015

Mayor and City Council
City of Snohomish
Snohomish, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Snohomish's financial statements and compliance with federal laws and regulations.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

City of Snohomish Snohomish County January 1, 2014 through December 31, 2014

The results of our audit of the City of Snohomish are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

City of Snohomish Snohomish County January 1, 2014 through December 31, 2014

2014-001 The City does not have adequate internal controls in place to ensure compliance with federal cost principles and reporting requirements.

CFDA Number and Title:	20.205 Highway Planning and Construction
Federal Grantor Name:	U.S. Department of Transportation, Federal Highway Administration
Federal Award/Contract Number:	STPUL-2628(003)
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	LA-7908 and LA-8241
Questioned Cost Amount:	\$125,923

Background

The City reported federal expenditures totaling \$1,282,762 in fiscal year 2014 for five projects paid for by the Highway Planning and Construction Program. Of this amount, \$1,081,782 was spent on construction costs. These funds were provided by the United States Department of Transportation. Our audit focused on the 15th Street & Avenue D Roundabout and 2nd Street Overlay Projects, which accounted for approximately 92 percent of the total amount expended.

Program requirements require that federal funds can only be used to reimburse project costs incurred, and such costs must be eligible for Federal participation and directly attributable to the program. In addition, reported costs must be accurate, complete, and adequately supported.

Description of Condition

Our audit focused on the City's internal controls to ensure only eligible and allocable costs were requested for federal reimbursement, and that controls ensured only accurate, complete, and adequately supported costs were reported. Under the grant agreement, the federal share of incurred costs was 86.5 percent

and the City’s share was 13.5 percent. To cover its share of the project costs, the City used State Transportation Improvement Board (TIB) funds as its matching contribution, which is allowable to the grant. Our audit noted the following:

- The Engineering Division did not monitor reimbursement requests submitted to both the federal grantor and the State TIB to ensure amounts requested were in alignment with the grant agreement. Further, they did not ensure expenditures requested for federal reimbursement were not previously requested and reimbursed through the State TIB.
- The Engineering Division does not have an effective review process for the Federal Aid Progress Billings (reimbursement requests) to ensure requests are accurate, complete, adequately supported, and in compliance with OMB Circular A-87 Cost Principles.

We consider these deficiencies in internal controls to be material weaknesses.

Cause of Condition

The City’s Engineering Division relied on the review performed by the Washington State Department of Transportation’s Northwest Region Local Program’s Engineer to determine if federal reimbursement requests were accurate.

Further, the City’s Engineering Division did not dedicate enough time and resources to adequately research all applicable requirements of the program.

Effect of Condition and Questioned Costs

Failure to comply with federal requirements may jeopardize the City’s eligibility for future federal assistance. As the City’s Engineering Division did not properly research applicable grant reporting requirements and review reimbursement requests, it over-claimed federal expenditures requested for reimbursement and received \$125,923 which was previously reimbursed through State TIB funds. This amount was determined through the following calculation:

Construction Costs Reimbursed (from both federal grants and State TIB)	\$1,207,705
Less: Total Construction Costs Incurred	\$1,081,782
Amount Over-Claimed	\$125,923

The amount over-claimed was not eligible to be reimbursed by the federal program and as a result, we are questioning these costs.

Recommendation

We recommend the City:

- Ensure federal reimbursement requests are for project costs incurred and for allowable costs per OMB Circular A-87. Further, the City should ensure amounts requested for reimbursement do not include amounts previously reimbursed through other programs.
- Ensure reimbursement requests are accurate, complete, and adequately supported through a standardized review process.

City's Response

The City of Snohomish does not concur with the 2014 audit finding reference number 2014-001. Following is an explanation for the non-concurrence.

Finding reference number 2014-001 states, "The City does not have adequate internal controls in place to ensure compliance with federal cost principles and reporting requirements." This finding was due to a review of the 2014 grant expenditures and reimbursements requested from both federal and state grant programs amounting to \$125,923 that the auditor concluded was an over-claimed amount.

The City followed the required State and Federal grant reimbursement process. Although the Finding shows that for Federal and State progress billing reimbursement #2 more was reimbursed than expended, it is critical to acknowledge that more was not received for the project as a whole. Therefore, the City did not exceed the overall authorized amounts for either the State or Federal grant. Design and construction of the 15th Street/Avenue D Roundabout project spanned three years and was awarded the following grants:

*Authorized State Transportation Improvement Board (TIB) Grant Amount:
\$524,400*

Authorized Federal Grant Amount: \$1,064,000

Proper reimbursement forms and documents were submitted to and accepted by the grant administration agencies. The actual reimbursement schedule for the City's 15th Street/Avenue D Roundabout project is shown below:

<i>Reimbursement #</i>	<i>Submit Date</i>	<i>State Grant</i>	<i>Type</i>	<i>Submit Date</i>	<i>Federal Grant</i>	<i>Type</i>
<i>1</i>	<i>12-17-13</i>	<i>\$26,272.31</i>	<i>Design</i>	<i>12-19-13</i>	<i>\$168,337.43</i>	<i>Design</i>
<i>2</i>	<i>8-21-14</i>	<i>\$4,889.75</i>	<i>Design</i>	<i>9-19-14</i>	<i>\$19,932.57</i>	<i>Design</i>
<i>2</i>	<i>8-21-14</i>	<i>\$336,650.64</i>	<i>Construction</i>	<i>9-19-14</i>	<i>\$871,054.36</i>	<i>Construction</i>
<i>3</i>	<i>6-25-15</i>	<i>\$146,354.00</i>	<i>Construction</i>	<i>N/A</i>	<i>N/A</i>	
	<i>Totals:</i>	<i>\$514,166.69</i>			<i>\$1,059,324.36</i>	

As shown above, the total reimbursement amounts for both the State and Federal grants are less than the total final authorized amounts.

The grant reimbursement percentages are determined by the grant administration agencies independently. The City is not involved in determining the percentages. The City informed each of the agencies of the grants awarded to this project.

The City worked with the Local Programs Office of the Washington State Department of Transportation whom are the Federal grant administrators. The original grant amount was \$1,520,000 with the City's Local match portion being \$456,000 or 30%.

The City subsequently was awarded a State Grant from the Transportation Improvement Board (TIB) for \$456,000 which was the City's Local match portion of 30% for the Federal grant. After TIB awarded the grant, an additional \$68,400 was awarded to the project by TIB for a total of \$524,400. The TIB grant did not require a local match.

WSDOT set up its grant reimbursement worksheets to be based upon a reimbursement percentage of 86.5% with a not to exceed grant amount of \$1,064,000. The grant reimbursement percentage is independent of the grant application where the City requested 70% of the project cost.

The City worked with TIB staff that setup the automated online reimbursement form and established a reimbursement rate of 31.12% with a not to exceed amount of \$524,400. The City understood that based on the 31.12% there would be the possibility that there may be a time when the reimbursement amount may exceed the expenditure amount and discussed this with TIB. TIB explained that their preference was to maintain a constant reimbursement rate throughout the construction of the project. If this process was not utilized, one of two scenarios

would have been inevitable; the City would not have achieved its maximum state grant reimbursement, or TIB would have to change the reimbursement rate once the entire federal grant was expended.

The auditor was informed that this was a multi-year project and the City understands that one of the focuses of the audit was grant reimbursements in year 2014. For multi-year projects, reviewing the entire project as a whole would provide a better understanding of the grant reimbursements.

The City is not a Certified Agency and relies on the expertise of the Granting Agencies for guidance especially pertaining to setting up how funds are to be dispensed.

Auditor's Remarks

We appreciate the cooperation and willingness of City staff to discuss the issue identified with federal grant requirements during the current audit. We provide the following points of clarification to the City's response:

- It is the City management's responsibility to ensure it complies with all federal and state grant requirements.
- Per the Federal Aid Progress Billing worksheets, the City was required to certify that "actual costs claimed (for reimbursement) have been incurred and are eligible for the purposes specified; also, that no other claims have been presented to, or payment made by, the State of Washington for those costs claimed for reimbursement."
- Although the City stated that total project costs would not exceed the grant amount awarded, the audit concern is focused on the City receiving federal reimbursement for \$125,923 in costs previously reimbursed by the State Transportation Improvement Board.

We have concluded this practice is not in agreement with federal grant requirements pertaining to allowable costs and reporting principles.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts

or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively . . .

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal

control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur . . .

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

U.S. Office of Management and Budget (OMB) Circular A-87 Revised – Cost Principles for State, Local, and Indian Tribal Governments; Attachment A – General Principles for Determining Allowable Costs; Part C – Basic Guidelines; Part 3 – Allowable Costs, states in part:

- (a) A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- (b) All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.
- (c) Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

**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, 2014 through December 31, 2014**

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, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 23, 2015.

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 blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 23, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**City of Snohomish
Snohomish County
January 1, 2014 through December 31, 2014**

Mayor and City Council
City of Snohomish
Snohomish, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Snohomish, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 23, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Snohomish Snohomish County January 1, 2014 through December 31, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 22.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Snohomish has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Snohomish, for the year ended December 31, 2014, 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, 2014, 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 Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 23, 2015 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 23, 2015

FINANCIAL SECTION

**City of Snohomish
Snohomish County
January 1, 2014 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014
Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

City of Snohomish
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General Fund	102 Streets
Beginning Cash and Investments				
30810	Reserved	10,100,514	11,286	179,354
30880	Unreserved	2,499,023	1,666,570	-
388 & 588	Prior Period Adjustments, Net	11,286	11,286	-
Operating Revenues				
310	Taxes	6,436,460	6,013,010	-
320	Licenses and Permits	235,304	230,904	-
330	Intergovernmental Revenues	3,132,493	185,205	190,186
340	Charges for Goods and Services	13,888,796	1,343,811	-
350	Fines and Penalties	135,997	89,144	-
360	Miscellaneous Revenues	168,390	56,498	6,095
Total Operating Revenues:		<u>23,997,440</u>	<u>7,918,572</u>	<u>196,281</u>
Operating Expenditures				
510	General Government	2,569,410	2,181,144	-
520	Public Safety	3,352,071	3,352,071	-
530	Utilities	5,969,298	-	-
540	Transportation	2,002,456	-	862,770
550	Natural and Economic Environment	501,439	501,439	-
560	Social Services	-	-	-
570	Culture and Recreation	569,919	531,215	-
Total Operating Expenditures:		<u>14,964,592</u>	<u>6,565,869</u>	<u>862,770</u>
Net Operating Increase (Decrease):		<u>9,032,847</u>	<u>1,352,703</u>	<u>(666,489)</u>
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	608,983	16,075	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	3,681,499	68,000	600,000
Total Nonoperating Revenues:		<u>4,290,482</u>	<u>84,075</u>	<u>600,000</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	3,426	-	-
591-593	Debt Service	1,605,921	-	-
594-595	Capital Expenditures	5,833,854	941,736	-
597	Transfers-Out	3,681,499	870,983	60,000
Total Nonoperating Expenditures:		<u>11,124,700</u>	<u>1,812,719</u>	<u>60,000</u>
Net Increase (Decrease) in Cash and Investments:		<u>2,198,629</u>	<u>(375,941)</u>	<u>(126,489)</u>
Ending Cash and Investments				
50810	Reserved	12,315,156	-	52,866
50880	Unreserved	2,483,011	1,294,082	-

The accompanying notes are an integral part of this statement.

104 Park Impact Fee	107 Visitor Promotion	108 PBI A	113 Police Operational Reserve	117 Real Estate Excise Tax	125 Street Impact Reserve
1,574	10,696	23,475	55,793	213,549	161,620
-	-	-	-	-	-
-	-	-	-	-	-
-	8,584	-	-	357,419	-
-	-	-	-	-	-
-	-	-	-	-	-
226,238	-	-	-	-	214,409
-	-	-	46,853	-	-
75	9	23,057	53	244	199
226,313	8,593	23,057	46,906	357,663	214,608
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	6,716	-	-	-	-
-	6,716	-	-	-	-
226,313	1,877	23,057	46,906	357,663	214,608
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
184	-	-	-	-	-
48,000	-	-	-	55,000	-
48,184	-	-	-	55,000	-
178,129	1,877	23,057	46,906	302,663	214,608
179,702	12,573	46,532	102,699	516,212	376,228
-	-	-	-	-	-

The accompanying notes are an integral part of this statement.

205 Debt Service Fund	310 Municipal Capital Projects	311 Street Improvements	401 Water Utility	402 Wastewater Utility	403 Solid Waste
13,730	156,046	(7,442)	1,849,056	5,900,832	123,842
-	-	-	-	-	-
-	-	-	-	-	-
57,447	-	-	-	-	-
-	-	-	2,000	2,400	-
-	49,494	2,526,290	-	-	-
-	-	800,000	2,384,974	4,607,443	1,869,468
-	-	-	-	-	-
28	674	106	71,610	8,003	-
57,476	50,168	3,326,397	2,458,584	4,617,846	1,869,468
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,100,733	1,818,842	1,967,389
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,100,733	1,818,842	1,967,389
57,476	50,168	3,326,397	357,851	2,799,004	(97,921)
-	-	74,468	179,367	339,073	-
-	-	-	-	-	-
83,483	504,816	430,200	115,000	1,500,000	-
83,483	504,816	504,668	294,367	1,839,073	-
-	-	-	1,851	1,574	-
141,676	-	-	94,100	1,370,146	-
-	478,323	2,790,065	121,586	1,285,427	-
-	25,016	-	364,500	1,735,500	-
141,676	503,339	2,790,065	582,037	4,392,647	-
(717)	51,645	1,041,000	70,181	245,431	(97,921)
13,012	215,524	1,033,558	1,917,852	6,147,650	25,921
-	-	-	-	-	-

The accompanying notes are an integral part of this statement.

404 Stormwater Utility	501 City Shop	502 Information Services	503 Self- insurance Fund	505 Equipment Replacement
1,407,103	-	-	-	-
-	319,645	351,148	12,607	149,053
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
181,319	-	-	-	-
1,144,396	804,561	369,247	9,865	114,386
-	-	-	-	-
1,181	210	230	8	110
<u>1,326,896</u>	<u>804,771</u>	<u>369,477</u>	<u>9,873</u>	<u>114,495</u>
-	-	352,339	10,183	25,743
-	-	-	-	-
82,335	-	-	-	-
649,391	490,296	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	31,988
<u>731,726</u>	<u>490,296</u>	<u>352,339</u>	<u>10,183</u>	<u>57,731</u>
595,170	314,475	17,138	(310)	56,764
-	-	-	-	-
-	-	-	-	-
380,000	-	-	-	-
<u>380,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
184,944	-	31,590	-	-
522,500	-	-	-	-
<u>707,444</u>	<u>-</u>	<u>31,590</u>	<u>-</u>	<u>-</u>
267,726	314,475	(14,452)	(310)	56,764
1,674,828	-	-	-	-
-	634,121	336,695	12,297	205,817

The accompanying notes are an integral part of this statement.

City of Snohomish
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	602 Miller Library Trust	604 Carnegie Restoration Fund	677 Transportation Bene District
308	Beginning Cash and Investments	675,711	5,763	5,110	664,838
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	789,317	-	17,942	771,376
380-390	Other Increases and Financing Sources	-	-	-	-
510-570	Expenditures	802,245	-	2,245	800,000
580-590	Other Decreases and Financing Uses	-	-	-	-
Net Increase (Decrease) in Cash and Investments:		(12,927)	-	15,697	(28,624)
508	Ending Cash and Investments	662,783	5,763	20,807	636,213

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements For the Year Ended December 31, 2014

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

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

a. Fund Accounting

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

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Project Funds

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

PROPRIETARY FUND TYPES

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES

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

Private-Purpose Trust Funds

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

Agency Funds

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

b. Basis of Accounting

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

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased. The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

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

**City of Snohomish
Final Appropriations vs. Actual Expenditures
By Fund as of December 31, 2014**

Fund/Department	Final Appropriation	Actual Expenditures	Variance	Notes
General Fund				
City Council	124,442	142,252	(17,810)	Professional Services-Legal exceeded budget
City Manager	926,215	947,587	(21,372)	Cost Allocation Charges and Insurance premiums exceeded budget
Support Services-Finance	605,358	483,794	121,564	Personnel costs under budget
Law Enforcement	3,421,651	3,455,232	(33,581)	Cost Allocation Charges exceeded budget
Planning & Permitting	516,671	499,505	17,166	Personnel costs under budget
Public Works-Building/Grounds	390,093	351,905	38,188	Personnel costs, Utility charges and Repairs & Maintenance expenditures under budget
Public Works-Parks	375,956	507,166	(131,210)	Cost Allocation Charges exceeded budget
Public Works-Engineering	991,001	941,736	49,265	Cost Allocation Charges and Professional Services expenditures under budget
Non-Departmental	145,438	178,429	(32,991)	Cost Allocation Charges exceeded budget
Transfers-Out	870,983	870,983	-	Transfers-Out at budget
Total General Fund	8,367,806	8,378,588	(10,782)	
Streets Fund	852,045	922,770	(70,725)	Cost Allocation Charges exceeded budget
Park Impact Fee Fund	48,000	48,184	(184)	Transfers-Out at budget
Visitor Promotion Fund	8,200	6,716	1,484	Community Event Administration fees under budget
PBIA Fund	23,000	-	23,000	No appropriations expended
Police Seizures Fund	10,000	-	10,000	No appropriations expended
REET Fund	55,000	55,000	-	Transfers-Out at budget
Street Impact Fee Fund	-	-	-	No appropriations budgeted
Debt Service Fund	141,701	141,676	25	Debt Service principal and interest at budget
Municipal Capital Project Fund	466,115	478,323	(12,208)	Professional Services exceeded budget
Street Capital Project Fund	2,945,867	2,790,006	155,861	Overlay construction costs under budget
Water Utility Fund	2,357,970	2,392,627	(34,657)	Capital Outlay exceeded budget
Wastewater Utility Fund	4,785,451	4,776,917	8,534	Cost Allocation charges under budget, Professional Services exceeded budget, Utility Services over budget
Solid Waste Fund	1,968,798	1,967,389	1,409	Cost Allocation charges under budget, Recycling Services over budget
Stormwater Fund	1,552,424	1,254,266	298,158	Professional Services under budget, Capital Outlay under budget
Fleet/Facilities Fund	464,565	490,339	(25,775)	Cost Allocation Charges exceeded budget
Information Services Fund	442,778	490,295	(47,517)	Professional Services under budget, Training under budget, Repairs & Maintenance under budget
Self-Insurance Fund	50,000	10,183	39,817	Unemployment Compensation under budget
Equipment Replacement Fund	75,000	57,731	17,269	Capital Outlay under budget
Carnegie Restoration Fund	-	2,245	(2,245)	Leasehold Tax exceed budget

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

d. Cash and Investments

See Note 3 - *Deposits and Investments*

e. Capital Assets

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

f. Compensated Absences

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

g. Long Term Debt

See Note 6 - *Debt Service Requirements*

h. Other Financing Sources or Uses

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

i. Risk Management

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

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and

insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

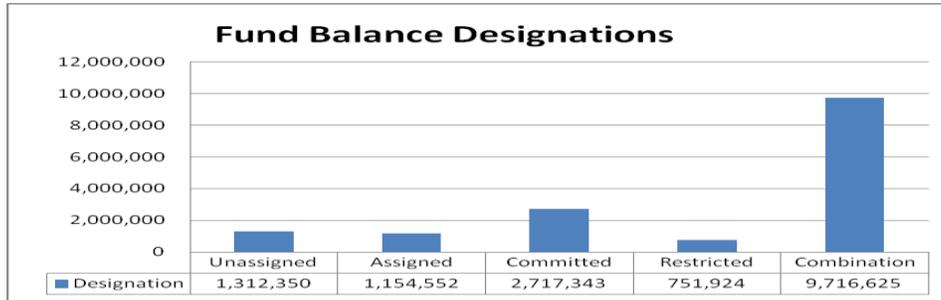
An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

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

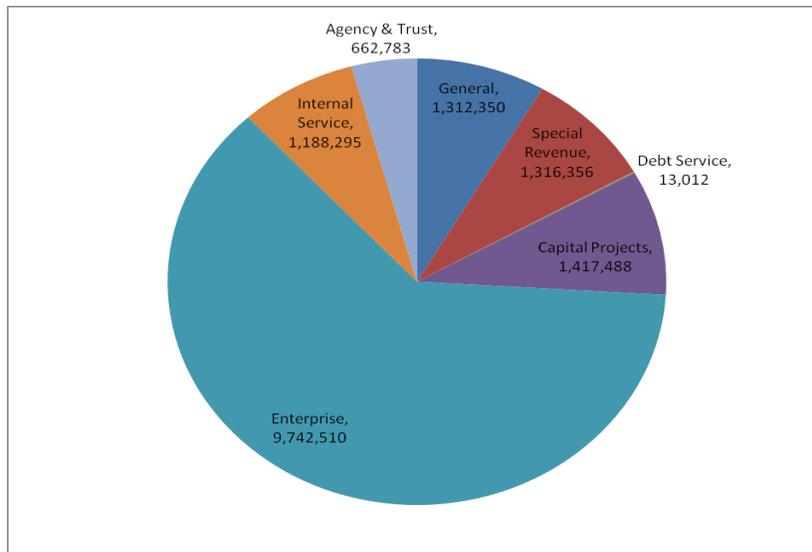
j. Reserved Portion of Ending Cash and Investments

Beginning and ending fund balances are classified as restricted, committed, assigned or unassigned. Restricted and assigned balances are the amounts of cash and investments not available due to the restrictions imposed on them by external parties (grantors) and/or due to internal designations. Internal designations or committed fund balances are those imposed by the city council through a formal action such as ordinances or resolutions. The 2014 ending fund balance for all funds is \$15,652,793. Ending fund balance amounts, restated to accommodate for the warrants payable (expenditures included in the 20-day look back period) amount of \$191,843 and the City reporting on the cash basis would reduce the ending balance to \$15,460,950. The following chart depicts the City of Snohomish fund balance (actual cash) breakdown including warrants payable.

Utility Enterprise funds have a combination of designations and are classified separately:



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



NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

There have been no material violations of finance-related legal or contractual provisions.

For 2014, the City amended the Cost Allocation Plan and methods used to determine and assign the cost of indirect services to direct operating funds. 2014 serves as a transition year and during the year-end true-up and reconciliation of costs to beneficiary funds and departments, there were expenditures that caused some of the funds of the City to exceed legal appropriations of an immaterial nature.

As of December 31, 2014, Funds 106, 110, 118, 174, 206, 214, 303, 432, 433, 434, 451, 452, 471, 472, 473, 474, 603, 605, 621 were closed pursuant to Ordinance 2286. These funds were considered to be inactive, not required or obsolete. Aggregate and residual balances were transferred to active funds and fund balances appropriately designated.

NOTE 3: DEPOSITS AND INVESTMENTS

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

The City's deposits are covered by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. The City's deposits and investments are insured, registered or held by the City or its agent in the City's name. Deposits and investments are presented at their cost basis. The City's Cash and Cash Equivalents at December 31, 2014 are as follows:

Cash & Cash Equivalent Portfolio			
	Total	City	Trust & Agencies
Petty Cash	570	570	-
Cash Accounts	5,655,379	4,992,596	662,783
LGIP	8,507,261	8,507,261	-
Investment Accounts	1,489,583	1,489,583	-
Total Portfolio	15,652,793	14,990,010	662,783

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 2014 was \$1.0553 per \$1,000 on an assessed valuation of \$1,037,368,081 for a regular levy of \$1,094,802.

The City's General Obligation bond levies for 2014 were \$0.06429 per \$1,000 on an assessed valuation of \$905,535,522 for a bond levy of \$58,218.

The City has a banked capacity of \$1,013,575.03. This amount represents property tax levies forgone in prior years. The banked capacity amount may be levied in future years.

NOTE 5: INTERFUND LOANS AND ADVANCES

No inter-fund loan activities during 2014.

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 2014. The debt service payment for the fiscal year being reported (2014) and future payment requirements, including interest, are as follows:

**City of Snohomish
Debt Service Obligations
as of December 31, 2014**

Year	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2014	141,200	134,500	1,329,746	1,605,446
2015	80,233	134,900	1,322,767	1,537,900
2016	62,483	135,150	1,028,618	1,226,251
2017	60,723	134,250	749,068	944,040
2018	58,943	133,250	745,491	937,683
2019-2023	308,855	506,500	3,618,699	4,434,054
2024-2028	123,400	292,000	1,802,497	2,217,897
2029-2033	-	58,400	-	58,400
2034-2038	-	-	-	-
Totals	835,835	1,528,950	10,596,885	12,961,670

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: HEALTH AND WELFARE

The City of Snohomish is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Inter-local agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Inter-local Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Inter-local Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the State of Washington. Non-City entities (public agency, public corporation, intergovernmental agency, or political subdivision within the State of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with fewer than 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's Office.

NOTE 9: CONTINGENCIES AND LITIGATION

As of December 31, 2014, 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 10: OTHER EVENTS

The City was issued a finding, report no. 1012792, from the Washington State Auditor's Office on October 20, 2014 covering audit period January 1, 2013 through December 31, 2013 which identified deficiencies considered to be material weaknesses related to development of a cost allocation policy and oversight of how the City calculates and charges shared service costs to all funds. Prior to the audit finding report, the City amended the Cost Allocation Plan and methods used to allocate costs to all funds.

NOTE 11: COMPONENT UNIT

Snohomish Transportation Benefit District

In 2010, the Snohomish City Council enacted Ordinance 2197, establishing the Snohomish Transportation Benefit District comprised of the corporate limits of the City. The District was created under the authority provided by RCW 35.21. The City Council serves as the governing board of the Transportation Benefit District. The City and District have entered into an Inter-Local Agreement whereby funds generated by the transportation benefit district are transferred to the City and used as one funding source, along with other funding sources for overall transportation improvement projects that preserve, maintain, and operate the existing

transportation infrastructure of the City. The District funds are provided by a sales tax increase approved by the City voters in an election held in August of 2011. Additional information about the City of Snohomish Transportation Benefit District can be obtained from the City's website at www.snohomishwa.gov.

Note 12: JOINT VENTURE

Snohomish Affordable Housing Association

In 2013, the City of Snohomish entered into an Inter-Local Agreement for Inter-Jurisdictional Coordination Related to Affordable Housing initiatives with Snohomish County. Other cities joining the Inter-Local Agreement include Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo and Woodway. The parties have a common goal to establish housing policies and programs provide technical expertise in support of affordable housing goals and to seek opportunities to leverage resources in support of housing goals in Snohomish County. The agreement creates a joint venture and each party contributes on an annual basis to Snohomish County who serves as the Administrative Agency and Fiscal Agent. A joint board is selected from each party to the agreement and establishes an annual budget and plan of work. Annual contributions for each party will be calculated as a percentage of the entire proposed budget as adopted by the Joint Board. Calculations are based on each party population with a minimum annual contribution of \$1,000. For 2014, the City of Snohomish financial responsibility and contribution is \$1,000 paid from the City's General Fund. A copy of the Inter-Local Agreement, annual budget and annual financial statements, as provided by Snohomish County are available at the Snohomish City Hall. Financial statements pertaining to the Inter-Local Agreement and Fiscal Agent are available through Snohomish County.

Snohomish County Police Staff and Auxiliary Service Center (SNOPAC)

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

NOTE 13: SIGNIFICANT COMMITMENT

The City of Snohomish is a participant in the U. S. Department of Justice Equitable Sharing Program. Through this program the Department of Justice distributes an equitable share of forfeited property and proceeds to a participating state and local law enforcement agency that directly participates in an investigation or prosecution that result in a federal forfeiture. Equitable

sharing funds are required to be used for law enforcement purposes. Information regarding the Department of Justice Equitable Sharing Program can be found at www.justice.gov. As of December 31, 2014, The City of Snohomish has received \$102,698.86 in equitable sharing payments. Fund 113, a special revenue fund, is established to track the revenue sharing payments. Funds are restricted for use for future law enforcement purposes. In 2014, no allocations were authorized from Fund 113.

**City of Snohomish
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	ULMT Bond Rivertrail	7/1/2025	590,000	-	55,000	535,000
251.12	ULMT CO Bond 1995 Firestation	7/1/2014	55,000	-	55,000	-
259.11	Compensated Absences GO	1/1/2014	194,562	251,753	218,686	227,629
	Total General Obligations:		839,562	251,753	328,686	762,629
Revenue Obligations						
263.82	Federal Home Loan	12/1/2021	482,000	-	52,000	430,000
263.82	RECD Loan	10/1/2036	782,167	-	18,450	763,717
263.82	SRF Loan	5/1/2015	1,379,868	-	551,947	827,921
263.82	PWTF Phase 1 CSO	5/1/2027	1,565,789	-	104,386	1,461,403
263.82	PWTF Comp Water System	9/1/2014	36,000	-	18,000	18,000
263.82	PWTF CTED WWTP	7/1/2028	1,804,688	-	120,313	1,684,375
263.82	PWTF Cemetary Creek 1	3/1/2022	495,892	-	55,099	440,793
263.82	PWTF Cemetary Creek 2	5/1/2024	3,981,140	-	361,922	3,619,218
263.82	PWTF Cemetary Creek 3	7/1/2027	1,031,579	-	73,684	957,895
259.12	Cmpensated Abs Proprietary	1/1/2014	56,670	112,538	98,431	70,777
	Total Revenue Obligations:		11,615,793	112,538	1,454,232	10,274,099
	Total Liabilities:		12,455,355	364,291	1,782,918	11,036,728

City of Snohomish
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Note
				From Pass- Through Awards	From Direct Awards	Total		
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA Dept of Transportation)	Highway Planning and Construction	20.205	LA-8366	68,128	-	68,128		
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA Dept of Transportation)	Highway Planning and Construction	20.205	LA-8241	292,540	-	292,540		
Federal Highway Administration (fhwa), Department Of Transportation (via St of WA Department of Transportation)	Highway Planning and Construction	20.205	LA-5882	2,378	-	2,378		
Federal Highway Administration (fhwa), Department Of Transportation (via State of WA Department of Transportation)	Highway Planning and Construction	20.205	LA-7908	890,987	-	890,987		
Federal Highway Administration (fhwa), Department Of Transportation (via St of WA department of transportation)	Highway Planning and Construction	20.205	LA-8133	28,729	-	28,729		
Total Highway Planning and Construction Cluster:				1,282,762	-	1,282,762		
Total Federal Awards Expended:				1,282,762	-	1,282,762		

City of Snohomish
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE / LOCAL FINANCIAL ASSISTANCE
For the Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Snohomish's financial statements. The City uses the cash basis method of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the grant portion of the program costs. Entire program costs, including the City's portion, may be greater than the amount reflected on the schedule.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER OMB CIRCULAR A-133**

**City of Snohomish
Snohomish County
January 1, 2014 through December 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Snohomish.

Finding ref number: 2014-001	Finding caption: The City does not have adequate internal controls in place to ensure compliance with federal cost principles and reporting requirements.
Name, address, and telephone of auditee contact person: Jennifer Olson, Finance Director 116 Union Avenue Snohomish, WA 98290 (360) 282-3179	
Corrective action the auditee plans to take in response to the finding: <i>The City of Snohomish does not concur with the finding. The overall, multi-year project did not exceed the overall grant awards. For future grant administration, the city will review or attend training related to required internal control necessary for compliance with federal grants cost principles and reporting requirements. In addition, the City Engineer and Sr. Accountant will review all grant progress billing and reimbursement requests prior to submission and document the review within the grant project files.</i>	
Anticipated date to complete the corrective action: On-going	

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.

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