



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Arlington

For the period January 1, 2017 through December 31, 2017

Published November 8, 2018

Report No. 1022498





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

November 8, 2018

Mayor and City Council
City of Arlington
Arlington, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10
About the State Auditor's Office.....	35

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Arlington
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Arlington
Arlington, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Arlington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 19, 2018.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

October 19, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Arlington January 1, 2017 through December 31, 2017

Mayor and City Council
City of Arlington
Arlington, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Arlington, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Arlington, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Arlington, as of December 31, 2017, 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

October 19, 2018

FINANCIAL SECTION

City of Arlington January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	107 Growth Management Fund
Beginning Cash and Investments					
30810	Reserved	7,781,986	-	193,997	2,550,400
30880	Unreserved	19,933,439	3,487,464	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	14,590,101	11,993,377	-	-
320	Licenses and Permits	956,768	956,768	-	-
330	Intergovernmental Revenues	2,162,686	828,966	422,831	-
340	Charges for Goods and Services	20,756,601	1,511,202	58,341	1,297,234
350	Fines and Penalties	351,661	169,429	-	-
360	Miscellaneous Revenues	2,651,621	95,116	3,141	35,925
Total Revenues:		41,469,438	15,554,857	484,312	1,333,159
Expenditures					
510	General Government	2,395,182	1,928,380	-	-
520	Public Safety	11,850,678	8,860,960	-	-
530	Utilities	7,438,329	12,692	-	-
540	Transportation	3,882,354	-	922,809	-
550	Natural and Economic Environment	1,130,118	968,656	-	-
560	Social Services	3,678	3,678	-	-
570	Culture and Recreation	637,528	94,094	-	-
Total Expenditures:		27,337,867	11,868,459	922,809	-
Excess (Deficiency) Revenues over Expenditures:		14,131,571	3,686,398	(438,497)	1,333,159
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,628,234	4,900	566,049	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	509,973	77,240	-	-
381, 395, 398	Other Resources	1,205,436	-	1,031	286,226
Total Other Increases in Fund Resources:		3,343,643	82,140	567,080	286,226
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,923,767	178,969	14,527	-
591-593, 599	Debt Service	4,270,964	1,166,710	-	-
597	Transfers-Out	1,628,234	1,018,689	-	176,790
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	548,676	123,906	-	-
581	Other Uses	647,654	-	-	312,226
Total Other Decreases in Fund Resources:		11,019,295	2,488,274	14,527	489,016
Increase (Decrease) in Cash and Investments:		6,455,919	1,280,264	114,056	1,130,369
Ending Cash and Investments					
5081000	Reserved	7,463,473	-	308,052	3,680,769
5088000	Unreserved	26,707,870	4,767,728	-	-
Total Ending Cash and Investments		34,171,344	4,767,728	308,052	3,680,769

The accompanying notes are an integral part of this statement.

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		108 Emer Med Servcs Fund	109 Stream Corri Rest Fund	114 Lodging Tax Fund	116 Cemetery Fund
Beginning Cash and Investments					
30810	Reserved	-	-	84,252	-
30880	Unreserved	106,883	22,943	-	316
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	1,445,579	-	140,931	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,270	-	-	-
340	Charges for Goods and Services	1,306,112	-	-	177,576
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	40,471	242	1,163	29
Total Revenues:		2,793,432	242	142,094	177,605
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	2,907,033	-	-	-
530	Utilities	-	-	-	206,146
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	1,529	159,933	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,907,033	1,529	159,933	206,146
Excess (Deficiency) Revenues over Expenditures:		(113,601)	(1,287)	(17,839)	(28,541)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	18,146	-	-	24,236
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	16,292
381, 395, 398	Other Resources	312,226	-	-	-
Total Other Increases in Fund Resources:		330,372	-	-	40,528
Other Decreases in Fund Resources					
594-595	Capital Expenditures	28,453	-	-	-
591-593, 599	Debt Service	1,798	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	6,571	-	-	12,304
581	Other Uses	286,226	-	-	-
Total Other Decreases in Fund Resources:		323,049	-	-	12,304
Increase (Decrease) in Cash and Investments:		(106,278)	(1,287)	(17,839)	(317)
Ending Cash and Investments					
5081000	Reserved	-	-	66,413	-
5088000	Unreserved	605	21,656	-	-
Total Ending Cash and Investments		605	21,656	66,413	-

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		303 REET 1 Fund	304 REET 2 Fund	305 Capital Facil/Bldg Fund	310 Transport Improv Fund
Beginning Cash and Investments					
30810	Reserved	244,022	350,073	-	-
30880	Unreserved	-	-	100,004	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	505,107	505,107	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	45,000
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,207	6,056	130	10,294
Total Revenues:		508,314	511,163	130	55,294
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	82,686	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	22,553
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		82,686	-	-	22,553
Excess (Deficiency) Revenues over Expenditures:		425,628	511,163	130	32,741
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	40,402	-	50,000	174,922
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	1,297
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		40,402	-	50,000	176,220
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	207,663
591-593, 599	Debt Service	47,200	290,972	-	-
597	Transfers-Out	251,055	-	20,848	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	1,297
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		298,255	290,972	20,848	208,960
Increase (Decrease) in Cash and Investments:		167,775	220,191	29,282	(0)
Ending Cash and Investments					
5081000	Reserved	411,797	570,265	-	-
5088000	Unreserved	-	-	129,285	-
Total Ending Cash and Investments		411,797	570,265	129,285	-

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		311 Park Improvement Fund	312 Library Capital Impr Fund	316 Cemetery Cap Impr Fund	320 Equip Rental Replac Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	-	14,117	5,780	1,611,425
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	750,093	-	-	-
340	Charges for Goods and Services	-	-	-	11,475
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	5,367	158	65	996,099
Total Revenues:		755,460	158	65	1,007,574
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		755,460	158	65	1,007,574
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	184,923	-	-	28,440
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	223
381, 395, 398	Other Resources	-	-	-	38,211
Total Other Increases in Fund Resources:		184,923	-	-	66,874
Other Decreases in Fund Resources					
594-595	Capital Expenditures	742,895	-	-	800,907
591-593, 599	Debt Service	152,000	-	-	-
597	Transfers-Out	40,402	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		935,297	-	-	800,907
Increase (Decrease) in Cash and Investments:		5,085	158	65	273,541
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	5,086	14,275	5,845	1,884,966
Total Ending Cash and Investments		5,086	14,275	5,845	1,884,966

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		401 Water/Sewer Utility Fund	402 Airport Fund	412 Storm Water Mgmt Fund	504 P W Facilities M&O Fund
Beginning Cash and Investments					
30810	Reserved	3,518,458	564,629	-	-
30880	Unreserved	11,385,392	2,193,412	873,616	132,086
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	82,520	19,587	12,419
340	Charges for Goods and Services	12,579,190	2,887,735	911,245	9,818
350	Fines and Penalties	146,061	29,960	6,176	35
360	Miscellaneous Revenues	184,076	331,536	11,229	924,185
Total Revenues:		12,909,326	3,331,750	948,238	946,457
Expenditures					
510	General Government	-	-	-	466,802
520	Public Safety	-	-	-	-
530	Utilities	6,759,724	-	459,767	-
540	Transportation	-	2,448,683	-	488,308
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	543,433
Total Expenditures:		6,759,724	2,448,683	459,767	1,498,543
Excess (Deficiency) Revenues over Expenditures:		6,149,603	883,068	488,470	(552,086)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	536,215
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	1,694	401,819	-	11,407
381, 395, 398	Other Resources	49,202	518,540	-	-
Total Other Increases in Fund Resources:		50,897	920,359	-	547,623
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,599,618	268,159	42,203	40,372
591-593, 599	Debt Service	2,495,582	115,904	798	-
597	Transfers-Out	3,400	-	115,549	1,500
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	2,303	401,613	-	683
581	Other Uses	-	-	49,202	-
Total Other Decreases in Fund Resources:		4,100,903	785,675	207,752	42,555
Increase (Decrease) in Cash and Investments:		2,099,596	1,017,752	280,718	(47,019)
Ending Cash and Investments					
5081000	Reserved	2,047,748	92,466	-	-
5088000	Unreserved	14,955,697	3,683,326	1,154,334	85,068
Total Ending Cash and Investments		17,003,445	3,775,792	1,154,334	85,068

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		702 Cem Endowment Fund
Beginning Cash and Investments		
30810	Reserved	276,155
30880	Unreserved	-
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	6,674
350	Fines and Penalties	-
360	Miscellaneous Revenues	3,134
Total Revenues:		9,808
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		-
Excess (Deficiency) Revenues over Expenditures:		9,808
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581	Other Uses	-
Total Other Decreases in Fund Resources:		-
Increase (Decrease) in Cash and Investments:		9,808
Ending Cash and Investments		
5081000	Reserved	285,964
5088000	Unreserved	-
Total Ending Cash and Investments		285,964

City of Arlington
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	Private-Purpose Trust	Agency
308	Beginning Cash and Investments	258,502	29,506	228,996
388 & 588	Prior Period Adjustment, Net	-	-	-
310-390	Additions	1,226,481	1,760	1,224,721
510-590	Deductions	720,127	179	719,948
	Net Increase (Decrease) in Cash and Investments:	506,354	1,581	504,773
508	Ending Cash and Investments	764,856	31,087	733,769

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

CITY OF ARLINGTON

Period Ending December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Arlington was incorporated in 1903 and operates under the laws of the State of Washington applicable to a non-charter code city with a mayor-council form of government. The city is a general purpose government and provides police and fire protection, including emergency medical response services, engineering, street construction and maintenance, parks and recreation services, health and social services, a public library and general administrative services. In addition, the city owns and operates a cemetery, a water system, a sewer system, a storm water management system and an airport.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

These funds account for specific revenues sources that are restricted or committed to expenditures for specific purposes of the city.

Capital Projects Funds

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

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

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

Agency Funds

These funds are used to account for assets that the city holds for others in a custodial capacity.

B. Basis of Accounting

As permitted by the State of Washington, the City of Arlington has elected to prepare these financial statements on a cash basis of accounting in accordance with provisions of Washington State statutes and the Budgeting, Accounting and Reporting System (BARS) as prescribed by the State Auditor's Office.

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

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The city adopts biennial appropriated budgets for all funds. These budgets are appropriated at the fund level. The budgets constitute the legal authority for expenditures at that level. Biennial appropriations for all funds lapse at the fiscal year end.

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

Non-expenditure type account numbers are used in some funds.

The appropriated and actual expenditures for the legally adopted budgets for 2017 are shown on the following page, which includes the final budget amendment adopted November 20th, 2017.

Budgeted amounts are authorized to be transferred between departments within any fund or object classes within a department; however, any revisions that alter the total expenditures of a fund, or affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. The City Council also approves all expenditures for payroll and claims.

Fund/Department	FINAL APPROPRIATED AMOUNTS	ACTUAL EXPENSES	VARIANCE
001 - General Fund			
General Fund	\$ 15,557,770	\$ 14,312,397	\$ 1,245,373
004- Mandatory Reserve Fund	\$ -		\$ -
104- Program Development Funds	\$ 44,336	\$ 44,336	\$ -
105 – Health Services Fund	\$ 5,000	\$ -	\$ 5,000
Total 001 - General Fund	\$ 15,607,106	\$ 14,356,733	\$ 1,250,373
101 - Street Fund	\$ 1,114,733	\$ 937,336	\$ 177,397
107 - Growth Management Fund	\$ 993,009	\$ 489,016	\$ 503,993
108 - Emergency Med Services Fund	\$ 3,531,926	\$ 3,230,082	\$ 301,844
109 - Stream Corri Rest Fund	\$ 7,750	\$ 1,529	\$ 6,221
114 - Lodging Tax Fund	\$ 168,411	\$ 159,933	\$ 8,478
116 - Cemetery Fund	\$ 244,055	\$ 218,450	\$ 25,605
303 - REET 1 Fund	\$ 383,255	\$ 380,941	\$ 2,314
304 - REET 2 Fund	\$ 290,972	\$ 290,972	\$ -
305 - Capital Facil/Bldg Fund	\$ 50,000	\$ 20,848	\$ 29,152
310 - Transport Improv Fund	\$ 6,648,496	\$ 231,513	\$ 6,416,983
311 - Park Improvement Fund	\$ 1,910,000	\$ 935,297	\$ 974,703
312 – Library Improvement Fund	\$ -		\$ -
316 - Cemetery Cap Improv Fund	\$ -		\$ -
320 - Equip Rental Replacement Fund	\$ 813,443	\$ 800,907	\$ 12,536
401 - Water/Sewer Utility Fund			
Water/Sewer Utility Fund	\$ 9,652,769	\$ 7,876,361	\$ 1,776,408
405-Water Improvement Fund	\$ 1,891,774	\$ 708,165	\$ 1,183,609
406-Sewer Improvement Fund	\$ 1,372,904	\$ 940,864	\$ 432,040
407- P W-Utilities Admin Fund	\$ 991,187	\$ 892,706	\$ 98,481
411-W/S Bond Reserve	\$ 442,531	\$ 442,531	\$ -
Total 401 - Water/Sewer Utility Fund	\$ 14,351,165	\$ 10,860,627	\$ 3,490,538
402 - Airport Fund			
Airport Fund	\$ 4,375,693	\$ 3,142,614	\$ 1,233,079
410-Airport Reserve Fund	\$ -	\$ -	\$ -
413-Airport CIP (FAA) Fund	\$ 855,000	\$ 91,744	\$ 763,256
Total 402 - Airport Fund	\$ 5,230,693	\$ 3,234,358	\$ 1,996,335
412 - Storm Water Mgmt Fund			
Storm Water Mgmt Fund	\$ 1,103,215	\$ 634,597	\$ 468,618
409- Storm Water	\$ 250,000	\$ 32,922	\$ 217,078
Total 412 - Storm Water Mgmt Fund	\$ 1,353,215	\$ 667,519	\$ 685,696
504 - P W Facilities M&O Fund	\$ 1,553,153	\$ 1,541,098	\$ 12,055
622 - Cemetery Pre-Need Trust	\$ 3,000	\$ 179	\$ 2,821
680 - Transportation Benefit District	\$ 1,005,550	\$ 719,948	\$ 285,602
702 - Cemetery Endowment Fund	\$ -	\$ -	\$ -
Totals	\$ 55,259,932	\$ 39,077,287	\$ 16,182,645

Variance

The Transportation Improvement Fund (310) had a variance of \$6,416,983 because two projects were budgeted; 173rd was contingent of grant funding, grant was not awarded. Arlington Valley Road project did get grant funding but project was started in 2017 and carried over to 2018.

The \$974,703 variance in the Park Improvement Fund (311) happened because we budgeted for the Haller Splash Park and was contingent of grant funding. Grant was awarded in 2018, so project carried over to 2018.

Water Improvement Fund (405) had a variance of \$1,183,609 because we budgeted for a Water System Replacement but the city did not receive authorization from Department of Ecology for plans of drilling another well. Negotiations are continuing for water rights in 2018.

Airport Improvement Fund (413) had a variance of \$763,256 because we budgeted for FAA-Grant #26, this grant was awarded in 2017, but construction started in 2018.

D. Cash

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

E. Deposits

The city's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

F. Investments See Note #2

G. Capital Assets

Capital Assets are assets with an initial cost of more than \$7,500 and an estimated useful life in excess of 3 years. The capital assets of the City of Arlington are recorded as expenditures when purchased. This value was changed from \$5,000 to \$7,500 in 2017 with our purchasing policy update.

H. Compensated Absences

Vacation leave may be accumulated up to 300 hours. (American Federation of State, Counties and Municipal Employees (AFSCME) Union, the Arlington Police Officer's Association (APOA) Union Employees and Regular Non-represented employees).

International Association of Fire Fighters (IAFF) may accumulate up to 480 hours of vacation time but a maximum of 300 hours can be carried over from the last day of the Kelly cycle in any given year.

Regular Full-Time and (AFSCME) employees may accumulate Sick leave up to 1,200 hours. The Arlington Police Officer's Association (APOA) may accumulate sick leave up to 1,000 hours. The local International Association of Fire Fighters (IAFF) Union employees may accumulate sick leave up to 1,440 hours.

In no event shall Regular, AFSCME or APOA Employee's combined sick leave and vacation benefits payable upon termination/retirement exceed 240 hours.

The IAFF Union employees, upon separation from the city, are entitled to receive up to 260 hours of vacation time for employees hired on or before December 31, 2013 and 240 hours for employees hired on or after January 1, 2014. The maximum amount of unused sick leave to be paid to the employee upon separation of the City will be 350 hours for employees hired on or before December 31, 2013 and 330 hours for employees hired on or after January 1, 2014.

Payments are recognized as expenditures when paid.

I. Debt Service Requirements-See Note #5

J. Other Financing Sources or Uses

Inter-fund transactions are classified as follows:

Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the city.

Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses."

Contributions to the capital of enterprise or internal service funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.

Non-Revenues and Non-Expenditures:

The city's non-revenues and non-expenditures consist of inter-fund loan proceeds and repayments, agency collections and disbursements, investment proceeds and purchases, prior period corrections, residual equity transfers - in or out.

K. Reserved Fund Balance

Beginning and ending cash and investments are reported as reserved when subjected to restrictions on use imposed by external parties or due to internal commitments established by City ordinance or resolution.

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

The City reported the following ending cash/investment balances as reserved based on external and/or internal commitments;

<u>Fund</u>	<u>Purpose</u>	<u>12/31/17 Balance</u>
101 Street Fund	Street repair/construction	\$ 308,052
107 Growth Fund	Infrastructure improvements	\$ 3,680,769
114 Lodging Tax Fund	Tourism promotion	\$ 66,413
303 REET 1 Fund	Capital improvement	\$ 411,797
304 REET 2 Fund	Capital improvement	\$ 570,265
401 Water/Sewer Fund	Debt reserves	\$ 2,047,748
402 Airport Fund	Debt reserves/FAA projects	\$ 92,466
702 Cemetery Endowment	Preservation of cemetery	\$ 285,964

NOTE 2 - INVESTMENTS

The city investments are either insured, registered or held by the city or its agent in the city's name. The investments are presented at cost.

Investments by type at December 31, 2017 are as follows:

Type of Investment	City's Own Investments	Investments held by City as an agent for other local governments, individuals or private organizations	Balance
L.G.I.P	\$ 2,546,746		\$ 2,546,746
Reserve Account	\$ 2,819,701		\$ 2,819,701
U.S. Government Securities	\$23,221,268		\$23,221,268
Municipal Securities	\$ 1,822,891		\$ 1,822,891
Certificates of Deposit	\$ 1,035,613		\$ 1,035,613
Total	\$31,446,219		\$31,446,219

NOTE 3 – PROPERTY TAX

The Snohomish County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are usually distributed by the County twice each month, normally around the 10th and 20th of each month.

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

The city's regular levy for 2017 was \$1.7863 per \$1,000 on an assessed valuation of \$2,265,698,000 for a total regular levy of \$4,047,304. The city also levied \$0.4230 per \$1,000 for Emergency Medical Services (EMS) for a total levy of \$958,366, grand tax total \$5,005,670 - (per the Snohomish County Assessor's Office Annual Report for 2017 Taxes).

NOTE 4 - INTERFUND LOANS AND ADVANCES

In 1999 the City of Arlington purchased 24 acres of land from the City's municipal airport, to be used for parks and recreation. A 50 year repayment schedule was established. Included in the authorizing resolution were the terms of repayment. The 50 year payment terms call for interest to be determined and adjusted at least once every five years to not less than the US Treasury "Current Value of Funds Rate (CVFR)". The payments began in January 2000 at the interest rate of 5.20%. In 2017 and 2018 the CVFR interest rate was 1%.

Prior to the formation of the Storm water Fund, Storm water operating expenditures were paid out of the General Fund with the expectation that those costs would be reimbursed. The total amount paid from 2003 to 2006 by the General Fund totaled \$553,928. In 2008, \$50,000 was reimbursed from the Storm water Fund to the General Fund. In 2009, Resolution 789 was passed to allow the Water Capital Improvement Fund to reimburse the General Fund the remainder of what was owed, and also to authorize the Storm water Fund, beginning in 2010, to make payments of not less than \$50,000 per year to the Water Improvement Fund, until the entire remaining amount is reimbursed. Resolution 2013-007 was passed on March 18, 2013 to authorize interest of 0.5% to be paid on the loan.

In January, February and March of 2017, the EMS Fund required a short term inter-fund loan to meet cash flows needs until the fund received its May 2017 property tax payment. The EMS Fund borrowed \$312,226 from the Growth Fund intending to repay the loans when property taxes were received. Interest accrued on the loans at the monthly interest rate of the Local Government Investment Pool (LGIP). EMS paid back the growth fund \$286,226 plus \$1,798.19 interest but in order to meet cash flow needs at year-end EMS left a loan balance of \$26,000, which carried over to 2018.

The following table displays inter-fund loan activity during 2017.

2017 Interfund Loans					
Borrowing Fund	Lending Fund	Loan Balance 01/01/2017	New Loans	Repayments	Principle Balance 12/31/2017
General	Airport	\$ 1,995,934		\$ 56,594	\$ 1,939,340
Storm Water	Water CIP	\$ 159,555		\$ 49,202	\$ 110,353
EMS	Growth	\$ -	\$ 312,226	\$ 286,226	\$ 26,000

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedules of Long-term Liabilities (Schedule 9) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for the year ended December 31, 2017. In 2017 the city paid off the 2007 Water/sewer bonds.

The debt service requirements for general obligation bonds, revenue bonds and other loans (not including inter-fund loans) and obligations, including both principle and interest, are as follows:

2017-ANNUAL REPORT	G.O. DEBT PRINCIPAL	G.O. DEBT INTEREST	REVENUE PRINCIPAL	REVENUE BONDS INTEREST	OTHER DEBT PRINCIPAL	OTHER DEBT INTEREST	TOTAL
2018	1,051,664	513,671	30,124	590	1,672,349	527,398	3,795,797
2019	1,045,478	477,096			1,692,826	502,043	3,717,443
2020	1,013,744	440,227			1,787,169	474,934	3,716,074
2021	1,003,041	403,380			1,837,430	443,833	3,687,684
2022	872,451	367,120			1,864,709	411,676	3,515,956
2023-2027	4,181,451	1,340,864			9,371,669	1,543,540	16,437,524
2028-2032	2,980,000	612,700			4,690,626	661,625	8,944,951
2033-2037	1,255,000	75,800			990,942	249,808	2,571,550
2038-2040	-				528,544	29,791	558,336
Total	\$ 13,402,829	\$ 4,230,858	\$ 30,124	\$ 590	\$ 24,436,264	\$ 4,844,649	46,945,314

NOTE 6 - PENSION PLANS

Substantially all city full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) Plan 1, 2 or Plan 3 or the Law Enforcement Officers and Fire Fighters (LEOFF) Plan 2 retirement plans, administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems. Contributions to the systems by both employees and employer are based upon gross wages covered by plan benefits.

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

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

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

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

At June 30, 2017, the City's proportionate share of the collective net pension liabilities as reported on the Schedule 9 was as follows;

PLAN	ALLOCATION %	LIABILITY (ASSET)
PERS 1	.045974	\$2,181,502
PERS 2/3	.059136	\$2,054,693
LEOFF 1	.011641	(\$176,620)
LEOFF 2	.186477	(\$2,587,697)
VFFRPF	.25	(93,608)

The City also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

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

NOTE 7 – JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

SNOPAC

The City of Arlington and other Police and Fire entities (currently 37) operate jointly the Snohomish County Police Staff and Auxiliary Services Center, (SNOPAC). SNOPAC, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. Control of SNOPAC is with an 11 member Board of Directors which is specified in the Interlocal Agreement. SNOPAC takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of SNOPAC, any money in the possession of SNOPAC or the Board of Directors after payment of all costs, expenses and charges validly incurred under this Agreement shall be returned to the parties to this Agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the city's share was \$772,899 on December 31, 2017.

Effective January 1, 2018 Snohomish Counties SNOPAC and SNOCOM consolidated and will operate as Snohomish County 9-1-1.

Complete financial statements for SNOPAC can be obtained from SNOPAC's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

AHA-Alliance for Housing Affordability

In September, 2013, the City of Mountlake Terrace joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first three years of organizational start-up. The City of Arlington's equity share to date is:

Fiscal Year 7/1/16-6/30/17	AHA's Total Fiscal Year Budget	Arlington's Share of Budget	Arlington's Share as % of Total AHA Budget
2014	\$92,543	\$1,074	1.16%
2015	\$123,464	\$1,089	.88%
2016	\$145,590	\$1,078	.75%
2017	\$97,934	\$1,617	1.65%
2018	\$125,257	\$1,754	1.4%

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

Budget monitoring information can be obtained from Crystil Wooldridge, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 (or email: cwooldridge@ci.mlt.wa.us) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett, WA 98204.

Transportation Benefit District

On April 1, 2013, the Arlington City Council passed Ordinance #2013-005, which created a Transportation Benefit District (TBD). The TBD is a quasi-municipal corporation and independent taxing district created for the sole purpose of acquiring, constructing, improving, providing and funding transportation improvements within the City limits of Arlington. It has the authority to impose certain taxes and fees, either through a vote of the people or Board action, for transportation purposes. The TBD is governed by members of the Arlington City Council acting as the District's Board of Directors. The Mayor serves as Chair of the Board.

In August 2013, the voters passed a ballot measure to enact a .2% (two tenths of one percent) sales and use tax increase within the City limits. The additional sales tax collected in 2017 was \$1,033,533 to be used to support transportation projects within the City of Arlington.

The TBD Board executed an inter-local agreement with the City to make the most efficient use of their powers by enabling them to cooperate on the basis of mutual advantage and to help manage and operate the District and to make any transportation improvements consistent with existing state, regional and local transportation plans.

The TBD is a separate legal entity and is treated as an agency fund on the City's annual financial report, it also files a separate annual financial report with the State Auditor each year.

On February 21, 2018, the council passed ordinance number 2018-01 transferring the rights, powers, immunities, functions, and obligations of the Arlington Transportation Benefit District to the City of Arlington effective 1/1/2018. In 2018, the TBD will be part of the City of Arlington and included with the cities financial statement.

NOTE 8 – HEALTH & WELFARE

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

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

As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

NOTE 9 – RISK MANAGEMENT

The City of Arlington is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 161 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

NOTE 10 – OTHER DISCLOSURES

Biennial Budget

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

Fund Closures

Fund 104-Program Development was closed in 2017. In 2012 this fund was created when Police and Fire Department received donations from the Stillaguamish Tribe of Indians. Both departments have used these donations and this fund is no longer needed.

Other Post-Employment Benefits (OPEB)

The City has a commitment to pay for post-employment benefits for employees that belong to the Law Enforcement Officers and Fire Fighters Pension (LEOFF) Plan 1 (commonly referred to LEOFF 1). These benefits, per the Revised Code of Washington Chapter 41.26.150 include the payment of medical costs and nursing care. Six LEOFF 1 retirees received benefits during 2017 and a total of \$43,263 was paid out for those benefits during the year.

Construction Commitments

The City has active construction projects as of December 31, 2017. At year end, the City's commitments are as follows;

Project	Spent as of 12/31/17	Remaining Commitment
*Arlington Valley Road	\$416,133	\$3,859,125
**Haller Splash Park	\$1,869	\$1,198,131
Lift Station Upgrades	\$874,611	\$38,151
**Taxiway Lighting Project FAA#26	\$2,500	\$640,272

*The Arlington Valley Road project was originally budgeted in 2016 but was contingent upon receiving right of way access. We received right of way in 2018 and project will continue.

**Both Haller Splash Park and Taxiway Lighting is contingent upon grant funding; Grant was awarded in 2018.

**City of Arlington
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2007 LTGO - N Olympic Ave	12/1/2027	2,300,000	-	195,000	2,105,000
251.11	2010 LTGO - Refunding/Fire St.	12/1/2030	2,755,000	-	390,000	2,365,000
251.11	2010 LTGO - Refunding/800 MHZ	12/1/2021	180,000	-	40,000	140,000
251.11	2014 LTGO-Refunding 2004/Police Station	12/1/2034	7,095,000	-	85,000	7,010,000
251.11	2014 LTGO-Police Vehicles	10/1/2024	270,760	-	103,653	167,107
251.11	2015 LTGO - Fire Apparatus	6/1/2025	1,422,221	-	151,501	1,270,720
251.11	2014 LTGO-Refunding 2009/Airport Expansion	12/1/2034	395,000	-	50,000	345,000
263.61	Graafstra Note-Park Land	4/1/2040	3,200,000	-	-	3,200,000
263.51	Lease - Computers - 810-6523252-003	2/1/2018	32,201	-	15,732	16,469
Total General Obligation Debt/Liabilities:			17,650,182	-	1,030,886	16,619,296
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/30/1899	1,243,501	-	128,957	1,114,544
252.11	2007 W/S Refunding	12/1/2017	425,000	-	425,000	-
252.11	2003 Revenue Bonds-Airport	8/1/2018	79,580	-	49,457	30,123
263.82	2006 PW Loan WWTP - PW-06-962-002	7/1/2026	3,935,467	-	393,547	3,541,921
263.82	2007 PW Loan WWTP - PR07-951-001	7/1/2027	578,945	-	52,629	526,316
263.82	2008 PW Loan WWTP - PC08-951-001	7/1/2028	6,352,940	-	529,411	5,823,529
263.82	Recovery Act Loan-DOE Loan L1000024	7/1/2029	4,574,950	-	257,594	4,317,356
263.82	Base Revolving Fund Loan-DOE Loan L1000025	7/1/2029	7,446,415	-	419,273	7,027,143
264.30	Pension Liabilities		5,211,232	-	975,037	4,236,195
Total Revenue and Other (non G.O.) Debt/Liabilities:			29,848,032	-	3,230,904	26,617,127
Total Liabilities:			47,498,214	-	4,261,790	43,236,423

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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