Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Arlington

For the period January 1, 2018 through December 31, 2018

Published September 16, 2019

Report No. 1024587

Office of the Washington State Auditor
Pat McCarthy

September 16, 2019

Mayor and City Council
City of Arlington
Arlington, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Arlington'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,

Pat McCarthy

State Auditor

Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Arlington
January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the City of Arlington are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

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 no 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 no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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, 2018 through December 31, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 9, 2019.

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.

Pat McCarthy

State Auditor

Olympia, WA

September 9, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

City of Arlington
January 1, 2018 through December 31, 2018

Mayor and City Council
City of Arlington
Arlington, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Arlington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 the Uniform Guidance, 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.

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.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. 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.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

September 9, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Arlington
January 1, 2018 through December 31, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 15.

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 cash and investments of the City of Arlington, and its changes in cash and investments, for the year ended December 31, 2018, 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, 2018, 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 Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is 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 9, 2019 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

Pat McCarthy

State Auditor

Olympia, WA

September 9, 2019

FINANCIAL SECTION

City of Arlington
January 1, 2018 through December 31, 2018

FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

City of Arlington
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	107 Growth Management Fund
Beginning Cash and Investments					
30810	Reserved	7,463,473	-	308,052	3,680,769
30880	Unreserved	26,707,870	4,767,728	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	16,511,729	12,560,962	-	-
320	Licenses and Permits	1,069,960	1,069,960	-	-
330	Intergovernmental Revenues	4,218,632	769,763	435,484	-
340	Charges for Goods and Services	22,817,913	2,785,392	57,941	1,935,281
350	Fines and Penalties	260,639	155,953	-	-
360	Miscellaneous Revenues	3,787,930	154,926	4,909	57,531
Total Revenues:		48,666,803	17,496,956	498,333	1,992,812
Expenditures					
510	General Government	2,723,995	2,271,271	-	-
520	Public Safety	12,327,748	9,421,361	-	-
530	Utilities	7,793,345	6,173	-	-
540	Transportation	5,180,711	-	986,029	-
550	Natural and Economic Environment	1,471,396	1,302,224	-	-
560	Social Services	4,983	4,983	-	-
570	Culture and Recreation	691,737	113,373	-	-
Total Expenditures:		30,193,915	13,119,386	986,029	-
Excess (Deficiency) Revenues over Expenditures:		18,472,888	4,377,571	(487,695)	1,992,812
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	3,885,074	4,900	567,723	385,000
385	Special or Extraordinary Items	733,769	-	-	-
386 / 389	Custodial Activities	533,266	129,632	-	-
381, 395, 398	Other Resources	1,368,959	-	-	498,196
Total Other Increases in Fund Resources:		6,521,067	134,532	567,723	883,196
Other Decreases in Fund Resources					
594-595	Capital Expenditures	9,512,657	566,079	25,878	-
591-593, 599	Debt Service	3,802,201	1,167,260	-	-
597	Transfers-Out	3,885,074	1,956,069	-	1,122,835
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	576,493	144,778	-	-
581	Other Uses	1,019,840	-	-	472,196
Total Other Decreases in Fund Resources:		18,796,265	3,834,185	25,878	1,595,031
Increase (Decrease) in Cash and Investments:		**6,197,691**	**677,918**	**54,150**	**1,280,977**
Ending Cash and Investments					
5081000	Reserved	9,015,067	-	362,202	4,961,746
5088000	Unreserved	31,353,967	5,445,645	-	-
Total Ending Cash and Investments		**40,369,034**	**5,445,645**	**362,202**	**4,961,746**

The accompanying notes are an integral part of this statement.

108 Emer Med Servcs Fund	109 Stream Corri Rest Fund	114 Lodging Tax Fund	116 Cemetery Fund	180 Transportation Sales Tax Fund	303 REET 1 Fund
-	-	66,413	-	-	411,797
605	21,656	-	-	-	-
-	-	-	-	-	-
1,457,273	-	140,509	-	1,142,782	622,341
-	-	-	-	-	-
304,608	-	-	-	-	-
1,439,430	-	-	234,728	-	-
48	-	-	-	-	-
23,275	309	1,186	461	13,698	7,219
3,224,634	309	141,695	235,188	1,156,480	629,560
-	-	-	-	-	-
2,816,859	-	-	-	-	89,528
-	-	-	190,116	-	-
-	-	-	-	1,032,430	-
-	-	169,171	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,816,859	-	169,171	190,116	1,032,430	89,528
407,775	309	(27,476)	45,073	124,050	540,032
-	-	-	-	-	-
2,958	-	-	-	-	-
-	-	-	-	733,769	-
-	-	-	21,801	-	-
472,196	-	-	-	-	-
475,154	-	-	21,801	733,769	-
163,254	-	-	-	92,259	-
5,856	-	-	-	-	50,600
-	21,965	-	-	-	220,000
-	-	-	-	-	-
5,178	-	-	15,647	-	-
498,196	-	-	-	-	-
672,484	21,965	-	15,647	92,259	270,600
210,445	**(21,656)**	**(27,476)**	**51,226**	**765,560**	**269,432**
-	-	38,936	-	765,561	681,229
211,049	-	-	51,226	-	-
211,049	**-**	**38,936**	**51,226**	**765,561**	**681,229**

304 REET 2 Fund	305 Capital Facil/Bldg Fund	310 Transport Improv Fund	311 Park Improvement Fund	312 Library Capital Impr Fund	316 Cemetery Cap Impr Fund
570,265	-	-	-	-	-
-	129,285	-	5,086	14,275	5,845
-	-	-	-	-	-
587,862	-	-	-	-	-
-	-	-	-	-	-
-	-	1,876,868	154,241	-	-
-	-	-	-	-	-
-	-	-	-	-	-
11,337	1,457	12,905	661,907	203	82
599,198	1,457	1,889,773	816,147	203	82
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	79,251	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	79,251	-	-	-
599,199	1,457	1,810,522	816,148	203	82
-	-	-	-	-	-
-	1,050,000	1,122,835	152,000	-	-
-	-	-	-	-	-
-	-	1,405	-	-	-
-	-	-	-	-	-
-	1,050,000	1,124,240	152,000	-	-
-	33,972	2,548,141	423,802	-	-
285,721	-	-	152,000	-	-
-	-	385,000	-	-	-
-	-	-	-	-	-
-	-	1,297	-	-	-
-	-	-	-	-	-
285,721	33,972	2,934,438	575,802	-	-
313,478	**1,017,485**	**324**	**392,346**	**203**	**82**
883,742	-	-	-	-	-
-	1,146,771	324	397,432	14,478	5,927
883,742	**1,146,771**	**324**	**397,432**	**14,478**	**5,927**

320 Equip Rental Replac Fund	401 Water/Sewer Utility Fund	402 Airport Fund	412 Storm Water Mgmt Fund	504 P W Facilities M&O Fund	702 Cemetery Endowment
-	2,047,748	92,466	-	-	285,964
1,884,966	14,955,697	3,683,326	1,154,334	85,068	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	677,168	-	500	-
12,775	12,486,276	2,906,212	954,709	5,170	-
-	86,570	13,230	4,839	-	-
1,147,875	259,827	430,379	17,846	976,484	4,113
1,160,650	12,832,673	4,026,989	977,394	982,154	4,113
-	-	-	-	452,724	-
-	-	-	-	-	-
-	7,119,299	-	477,757	-	-
-	-	2,563,172	-	519,829	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	578,365	-
-	7,119,299	2,563,172	477,757	1,550,918	-
1,160,650	5,713,374	1,463,817	499,637	(568,764)	4,113
-	-	-	-	-	-
8,295	-	-	79,047	512,316	-
-	-	-	-	-	-
3,471	5,646	353,001	-	9,436	8,875
83,837	49,448	265,282	-	-	-
95,603	55,094	618,283	79,047	521,752	8,875
482,860	2,691,673	2,238,685	245,613	442	-
-	2,047,747	92,465	552	-	-
-	60,482	-	117,223	1,500	-
-	-	-	-	-	-
4,414	6,172	398,469	9	530	-
-	-	-	49,448	-	-
487,274	4,806,074	2,729,619	412,845	2,471	-
768,979	**962,394**	**(647,519)**	**165,839**	**(49,483)**	**12,988**
-	1,022,699	-	-	-	298,952
2,653,945	16,943,141	3,128,272	1,320,173	35,585	-
2,653,945	**17,965,840**	**3,128,272**	**1,320,173**	**35,585**	**298,952**

City of Arlington
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	Private-Purpose Trust	Agency
308	Beginning Cash and Investments	764,856	31,087	733,769
388 & 588	Prior Period Adjustment, Net	-	-	-
310-390	Additions	5,550	5,550	-
510-590	Deductions	735,545	1,776	733,769
Net Increase (Decrease) in Cash and Investments:		(729,995)	3,774	(733,769)
508	Ending Cash and Investments	34,861	34,861	-

The accompanying notes are an integral part of this statement.

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. 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.

D. 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.

E. Investments - See Note #3

F. Capital Assets

Capital Assets are assets with an initial cost of more than $7,500 and an estimated useful life in excess of 1 year. The capital assets of the City of Arlington are recorded as expenditures when purchased.

G. 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).

*AFSCME employees accrue sick leave at the rate of 8 hours per completed calendar month of continuous employment. No employee shall carry over a balance greater than one thousand (1,000) hours into the next calendar year *. Any sick leave accrued over one thousand (1,000) hours as of December 31st each year shall be cashed out at the rate of one third (1/3) of such leave and such amount shall be deposited into the employee's HRA VEBA account.

*Arlington Police Officer's Association (APOA) employees accrue sick leave at the rate of 12 hours per month of service. No employee shall carry over a balance greater than one thousand (1,000) hours into the next calendar year *. Any sick leave accrued over one thousand (1,000) hours as of December 31st each year shall be cashed out at the rate of one third (1/3) of such leave and such amount shall be deposited into the employee's HRA VEBA account.

Regular Non-represented employees accrue sick leave at the rate of 8 hours per month and can accrue up to one thousand two hundred (1,200) hours per year.

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

The local International Association of Fire Fighters (IAFF) Union employees may accumulate sick leave up to 1,440 hours.

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.

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.

* As of 1/1/2018, the city removed all sick leave caps with the intent to comply with the new Washington Paid Sick Leave laws, however, as of May 10, 2019; contract negotiations with the city's bargaining units are currently ongoing. After evaluating the city's internal policies and bargaining over the impacts of the new law, the city will be applying the sick leave caps (as noted above), with a payout provision, to each of the employee's sick leave banks. The sick leave cap and payout provision are retroactive to 1/1/2018. These provisions will apply to the AFSCME and APOA bargaining units only. The city will payout any sick leave over the 1,000-hour cap at 1/3 the value. The payout will be paid into an HRA VEBA account. Payouts are expected to occur June 2019.

H. Debt Service Requirements - See Note #6

I. 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.

J. 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;

Fund	Purpose	12/31/18 Balance
101 Street Fund	Street repair/construction	$ 362,202
107 Growth Fund	Infrastructure improvements	$ 4,961,746
114 Lodging Tax Fund	Tourism promotion	$ 38,936
180 Transportation Sales Tax Fund	Road Improvements	$ 765,561
303 REET 1 Fund	Capital improvement	$ 681,229
304 REET 2 Fund	Capital improvement	$ 883,742
401 Water/Sewer Fund	Debt reserves	$ 1,022,699
702 Cemetery Endowment	Preservation of cemetery	$ 298,952

Note 2 – Budget Compliance

The city adopts biennial appropriated budgets for all funds. These budges 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 2018 are shown on the following page, which includes the final budget amendment adopted December 17, 2018.

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 Appropiated Amounts	Actual Expenses	Variance
001 - General Fund	$ 18,345,701	$ 16,950,481	$ 1,395,220
General Fund			
004- Mandatory Reserve Fund	$ -	$ -	$ -
105 – Health Services Fund	$ 5,000	$ 3,090	$ 1,910
Total 001 - General Fund	**$ 18,350,701**	**$ 16,953,571**	**$ 1,397,130**
101 - Street Fund	$ 1,312,710	$ 1,011,907	$ 300,803
107 - Growth Management Fund	$ 2,202,324	$ 1,595,031	$ 607,293
108 - Emergency Med Services Fund	$ 3,599,807	$ 3,489,343	$ 110,464
109 - Stream Corri Rest Fund	$ 23,250	$ 21,965	$ 1,285
114 - Lodging Tax Fund	$ 178,496	$ 169,171	$ 9,325
116 - Cemetery Fund	$ 243,177	$ 205,763	$ 37,414
180 - Transportation Sales Tax Fund	$ 1,316,500	$ 1,124,689	$ 191,811
303 - REET 1 Fund	$ 360,600	$ 360,128	$ 472
304 - REET 2 Fund	$ 286,222	$ 285,721	$ 501
305 - Capital Facil/Bldg Fund	$ 36,300	$ 33,972	$ 2,328
310 - Transport Improv Fund	$ 8,777,960	$ 3,013,689	$ 5,764,271
311 - Park Improvement Fund	$ 632,000	$ 575,802	$ 56,198
312 – Library Improvement Fund	$ -	$ -	$ -
316 - Cemetery Cap Improv Fund	$ -	$ -	$ -
320 - Equip Rental Replacement Fund	$ 1,141,312	$ 487,274	$ 654,038
401 - Water/Sewer Utility Fund			
Water/Sewer Utility Fund	$ 12,857,840	$ 8,156,357	$ 4,701,483
405-Water Improvement Fund	$ 3,110,636	$ 2,433,459	$ 677,177
406-Sewer Improvement Fund	$ 1,157,904	$ 287,327	$ 870,577
407- P W-Utilities Admin Fund	$ 1,293,344	$ 1,048,230	$ 245,114
411-W/S Bond Reserve	$ -		$ -
Total 401 - Water/Sewer Utility Fund	**$ 18,419,724**	**$ 11,925,373**	**$ 6,494,351**
402 - Airport Fund			
Airport Fund	$ 4,257,506	$ 3,180,272	$ 1,077,234
410-Airport Reserve Fund	$ 1,715,000	$ -	$ 1,715,000
413-Airport CIP (FAA) Fund	$ 3,384,000	$ 2,112,519	$ 1,271,481
Total 402 - Airport Fund	**$ 9,356,506**	**$ 5,292,791**	**$ 4,063,715**
412 - Storm Water Mgmt Fund			
Storm Water Mgmt Fund	$ 1,202,878	$ 656,369	$ 546,509
409 - Storm Water CIP Fund	$ 320,400	$ 234,232	$ 86,168
Total 412 - Storm Water Mgmt Fund	**$ 1,523,278**	**$ 890,602**	**$ 632,676**
504 - P W Facilities M&O Fund	$ 1,571,339	$ 1,553,389	$ 17,950
622 - Cemetery Pre-Need Trust	$ 3,000	$ 1,776	$ 1,224
680 - Transportation Benefit District	$ 733,770	$ 733,769	$ 1
702 - Cemetery Endowment Fund	$ -	$ -	$ -
Totals	**$ 70,068,976**	**$ 49,725,725**	**$ 20,343,250**

Variance

The Growth Fund (107): $607,293

- 2018 - Budget - transfer funds to Transportation Improvement Fund for road related projects, but some projects were moved to 2019 so the total transfer was not needed.

Transportation Improvement Fund (310): $5,764,271

- $4.3M Budget - 204th/77th Roundabout project was contingent of grant funding, city received grant but not until 2019. Project moved to 2019.
- $1.3M Budget - Sidewalk & Trail Grant Project; project was contingent on receiving two separate grant. The city was awarded one grant but needed both for funding, project was cancelled and grant award was sent back.

Water Improvement Fund (405): $677,177

- Budgeted for New Water Source Development System, but project was moved to 2019.

Sewer Improvement Fund (406): $870,577

- Both the Sewer Main Replacement Project and Lift Station Upgrades were moved to 2019. Arlington Valley Road project; Sewer portion came under budget.

Airport Reserve Fund (410): $1,715,000

- The city budgeted $1.7M transfer to Airport CIP for construction projects, but some projects were delayed until 2019. Funds will carry over to 2019 and transfer as needed.

Airport CIP Fund (413): $1,271,481

- Airport budgeted $1.2M for Runway 11/29 Pavement project, but due to scheduling conflicts project was moved to 2019.

Transportation Benefit District (680) & Transportation Sales Tax Fund (180)

- Effective 1/1/2018 City Council passed Ordinance Number 2018-01 transferring rights from Transportation Benefit District (680), to Transportation Sales Tax Fund (180). The transfer of $733,769 closes out Transportation Benefit District (680), and now operates under the City of Arlington under 180-Fund.

NOTE 3 - 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, 2018 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	$ 3,102,351		$ 3,102,351
Reserve Account	$ 2,528,819		$ 2,528,819
U.S. Government Securities	$29,675,967		$29,675,967
Municipal Securities	$ 920,672		$ 920,672
Certificates of Deposit	$ 1,035,613		$ 1,035,613
Total	$37,263,422		$37,263,422

NOTE 4 – 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 monthly by the 10th.

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 2018 was $1.643 per $1,000 on an assessed valuation of $2,497,670,676 for a total regular levy of $4,104,341. The city also levied $0.3890 per $1,000 for Emergency Medical Services (EMS) for a total levy of $971,717.

NOTE 5 - 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 2018, the EMS Fund required short term inter-fund loans to meet cash flows needs until the fund received its May 2018 property tax payment. The EMS Fund borrowed $472,195.74 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). In 2018 EMS made a principal payment of $498,195.74 which includes $26,000 carryover loan balance from 2017 plus 5,856.42 interest to the Growth Fund.

The following table displays inter-fund loan activity during 2018.

2018 Interfund Loans

Borrowing Fund	Lending Fund	Loan Balance 01/01/18	New Loans	Repayments	Principal Balance
General Fund	Airport	$ 1,939,340	$ -	$ 57,736	$ 1,881,604
Stormwater	Water CIP	$ 110,353	$ -	$ 49,448	$ 60,904
EMS	Growth Fund	$ 26,000.00	$ 472,196	$ 498,196	$ -
		$ 2,075,693	$ 472,196	$ 605,380	$ 1,942,508

NOTE 6 – 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, 2018.

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:

2018-Annual Report	G.O. DEBT PRINCIPAL	G.O. DEBT INTEREST	OTHER DEBT PRINCIPAL	OTHER DEBT INTEREST
2019	1,045,478	477,096	1,692,826	502,043
2020	1,013,744	440,227	1,787,169	474,934
2021	1,003,041	403,380	1,837,430	443,833
2022	872,451	367,120	1,864,709	411,676
2023	906,976	334,405	1,892,885	378,622
2024-2028	3,859,475	1,178,259	9,080,939	1,365,670
2029-3033	3,010,000	491,100	3,268,327	529,166
2034-2038	640,000	25,600	1,039,050	201,700
2039-2040			300,580	9,606
Total	**12,351,165**	**3,717,188**	**22,763,915**	**4,317,250**

NOTE 7 - 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 I 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, 2018, 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	.043134%	$1,926,379
PERS 2/3	.055373%	$945,445
LEOFF 1	.011763%	($213,558)
LEOFF 2	.178636%	($3,626,700)
VFFRPF	.26%	($139,267)

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 8 – JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

Snohomish Co 911

The City of Arlington and other Police and Fire entities jointly operate SNOHOMISH COUNTY 911. SNOHOMISH COUNTY 911, 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 SNOHOMISH COUNTY 911 is with a 16 member Board of Directors which is specified in the Interlocal Agreement. SNOHOMISH COUNTY 911 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 SNOHOMISH COUNTY 911, any money in the possession of SNOHOMISH COUNTY 911 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 of Arlington's share was $717,566 on December 31, 2018.

AHA – Alliance for Housing Affordability:

In September 2013, the City of Arlington joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Greek, 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 (HASCO). Fiscal agent duties were transferred to HASCO during fiscal year 2018. The values included in the table below were audited and updated by the new fiscal agent and may be different from what was reported in previous years.

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 two years of organizational start-up. The City of Arlington's equity share to date is:

Fiscal Year 7/1/17 – 6/30/18	AHA's Total Fiscal Year Budget	City of Arlington's Share of Budget	City of Arlington's Share as % of Total AHA Budget
2014	$89,850	$1,074	1.20%
2015	$92,543	$1,089	1.18%
2016	$93,651	$1,617	1.73%
2017	$97,934	$1,754	1.79%
2018	$102,586	$1,876	1.83%
2019	$107,391	$1,968	1.83%

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 Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett WA 98204 (or email: pfrost@hasco.org) 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 City of Arlington City 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. This new fund will be included under the City's financial statement under Transportation Sales Tax Fund.

NOTE 9 – 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, 2018, 257 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 2018, 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

Note 10 - 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 providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has 160 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, stopgap, employment practices and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $16 million in limits above the self-insured layer is provided by reinsurance. Total limits are $20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

WCIA contracts 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 interlocalR, 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 11 – 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 2018 and a total of $79,777 was paid out for those benefits during the year.

Note 12 – Other Disclosures

Fund Closures

2018 Year-end; 401-Water/Sewer Utility Fund & 407 PW Utility Admin Fund were closed and the ending fund balances were transferred to new Funds, 403-Water and 404-Sewer Funds.

109-Stream Corridor Fund was closed because it had no revenue source; the ending fund balance $21,964.74 was transferred to 412-Storm Water Management Fund and will be tracked separately within that fund.

EMS Ambulance Utility Fee

On August 6th 2018; The City passed Ordinance Number 2018-007 creating a New Chapter 23.08 of the Arlington Municipal Code relating to billing an Ambulance Utility fee. This fee was created to support & sustain the EMS fund. The fees are charged and collected from all persons, businesses and other users in accordance with the utility fee collections procedures for water, sewer, and storm water utility as provided for in Chapter 13.12 AMC, Utility rates. In 2018 $194,485.00 was collected under this utility fee.

Accounting Software

In May 2018, the City converted it accounting software from BIAS software to Caselle. The City transferred all accounting modules; general ledger, utility billing, accounts receivable, accounts payable, payroll and fixed assets Caselle.

Construction Commitments

The City has active construction projects as of December 31, 2018. At year end, the City's commitments are as follows;

Project	Spent as of 12/31/18	2019 Remaining Commitment	Notes
	(includes retainage when applilcable)		
Arlington Valley Road	$ 3,678,449	$ 496,709	Completed April 2019
Haller Splash Park	$ 484,500	$ 904,647	Project delayed - had to rebid due to cost
Jensen Farm Waterline Repair	$ 205,060	$ 127,961	To be completed May 2019
2018 4 Year Utility and Pavement Preservation	$ 2,668,456	$ 172,687	Completed January 2019
2018 Pavement Improvements - Construction	$ 642,860	$ 3,000	To be completed May 2019
FAA Grant # 27 Seal Coat Design	$ 126,272	$ 10,200	To be completed May 2019
FAA Grant #27- Seal Coat - Construction	$ 571,371	$ 12,012	To be completed May 2019
11/29 Overlay Project - Construction	$ 2,685	$ 77,315	Carry over to 2019 due to scheduling conflicts.

City of Arlington
Schedule of Liabilities
For the Year Ended December 31, 2018

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	2,105,000	-	200,000	1,905,000
251.11	2014 LTGO-Refunding 2004/Police Station	12/1/2034	7,010,000	-	90,000	6,920,000
251.11	2014 LTGO-Refunding 2009/Airport Expansion	12/1/2034	345,000	-	50,000	295,000
251.11	2010 LTGO - Refunding/Fire St.	12/1/2030	2,365,000	-	405,000	1,960,000
251.11	2010 LTGO - Refunding/800 MHZ	12/1/2020	140,000	-	45,000	95,000
251.11	2014 LTGO-Police Vehicles	10/1/2019	167,107	-	106,187	60,920
251.11	2015 LTGO - Fire Apparatus	6/1/2025	1,270,720	-	155,477	1,115,243
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	16,469	-	16,469	-
	Total General Obligation Debt/Liabilities:		**16,619,295**	**-**	**1,068,133**	**15,551,163**
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	##########	1,114,544	84,775	-	1,199,319
252.11	2003 Revenue Bonds-Airport	8/1/2018	30,123	-	30,123	-
263.82	2006 PW Loan WWTP - PW-06-962-002	7/1/2026	3,541,921	-	393,547	3,148,374
263.82	2007 PW Loan WWTP - PR07-951-001	7/1/2027	526,316	-	52,632	473,685
263.82	2008 PW Loan WWTP - PC08-951-001	7/1/2028	5,823,529	-	529,412	5,294,118
263.82	Recovery Act Loan-DOE Loan L1000024	7/1/2029	4,317,356	-	265,164	4,052,192
263.82	Base Revolving Fund Loan-DOE Loan L1000025	7/1/2029	7,027,143	-	431,595	6,595,548
264.30	Pension Liabilities		4,236,195	-	1,364,371	2,871,824
	Total Revenue and Other (non G.O.) Debt/Liabilities:		**26,617,128**	**84,775**	**3,066,843**	**23,635,060**
	Total Liabilities:		**43,236,423**	**84,775**	**4,134,976**	**39,186,223**

City of Arlington
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures From Pass-Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
COMMUNITY ORIENTED POLICING SERVICE, JUSTICE, DEPARTMENT OF	Public Safety Partnership and Community Policing Grants	16.710	2015UMWX0108	-	65,000	65,000	-	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0002-027-2018	-	442,411	442,411	-	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53.0002-026.2017	-	574,494	574,494	-	
			Total CFDA 20.106:	**-**	**1,016,905**	**1,016,905**	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Wash Traffic Safety Commission)	State and Community Highway Safety	20.600	TZT DUI Patrol	3,628	-	3,628	-	
			Total Highway Safety Cluster:	**3,628**	**-**	**3,628**	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Assistance to Firefighters Grant	97.044	EMW-2017-FO-06251	-	124,615	124,615	-	
			Total Federal Awards Expended:	**3,628**	**1,206,520**	**1,210,148**	**-**	

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Arlington financial statements. The City of Arlington uses the cash basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Arlington's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – FAA Seal Coat Project

FAA is holding 10% ($42,298) from 2018 paid expenses until final close out. Project delayed for weather, and closeout will happen in 2019.

Note 4 – Indirect Cost Rate:

The City of Arlington has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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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