

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**City of Snohomish**  
**Snohomish County**

Audit Period  
**January 1, 2006 through December 31, 2006**

**Report No. 74904**

Issue Date  
**July 7, 2008**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

July 7, 2008

Mayor and City Council  
City of Snohomish  
Snohomish, Washington

***Report on Financial Statements***

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

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Snohomish County  
January 1, 2006 through December 31, 2006**

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# Schedule of Audit Findings and Responses

## City of Snohomish Snohomish County January 1, 2006 through December 31, 2006

### 1. The City of Snohomish's internal controls over accounting and financial reporting are inadequate.

#### Background

City management, the state Legislature, state and federal agencies and bondholders rely on financial statement information to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified significant deficiencies in controls that adversely affect the City's ability to produce reliable financial statements.

*Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate a significant deficiency, as defined below in the Applicable Laws and Regulations section, as a finding.

#### Description of Condition

City management did not provide adequate oversight of financial reporting and internal controls. We identified the following weaknesses in internal controls, that, when taken together, represent a significant deficiency in internal controls over financial reporting:

- The City's 2006 financial statements were compiled by two temporary employees without management oversight. When the financial statements were completed, City management did not conduct an independent review to detect material errors before submitting them for audit.
- The City's Finance Director had sole responsibility for preparing and recording journal entries. The City does not have a process to ensure journal entries are reviewed for accuracy. A review process over journal entries helps ensure only valid, authorized transactions are recorded in the accounting system.
- City employee information is entered into the payroll system and processed by one person with no management oversight or monitoring.

These deficiencies in internal controls make it reasonably possible that serious misstatements could occur and not be prevented or detected by the City in future years.

#### Cause of Condition

The City did not put in place adequate review and monitoring procedures to provide complete and accurate accounting and financial reporting. Financial reporting is the responsibility of management. As part of this responsibility, management has the obligation to ensure internal controls and processes are sufficient to accurately and completely record and present financial information.

## Effect of Condition

During our review of the City's financial statements, we found the following significant errors in the original financial statements the City provided for the audit:

- Audited, prior-year ending balances did not agree with 2006 beginning balances shown in the financial statements for 14 of the City's 39 funds. The total variance of the 14 funds was an overstatement of Cash and Investments of \$140,799. These errors were subsequently corrected by City management.
- General ledger accounts were misclassified in the financial statements in 13 of the 39 funds. Of the 13 funds, the two largest misclassifications were the Sewer Trunkline Fund and the Water/Sewer System Replacement Fund. City management later corrected these errors.
- Expenditures totaling \$540,875 were incorrectly charged to fiscal year 2006 after the 20-day cut-off period, resulting in an overstatement of 2006 expenditures and an understatement of 2007 expenditures.
- Incorrectly coded transactions within the City's general ledger totaled \$7,710,213. The majority of discrepancies were in the following financial statement balances:
  - Capital Outlay – understated (\$4,224,575)
  - Other Financing Uses – understated (\$1,786,971)
  - Debt Service – understated (\$1,060,331)
  - Physical Environment – overstated \$2,215,168
  - In addition, the City coded \$4,347,331 to a general ledger account, which no longer exists instead of various other general ledger accounts. These funds were reported correctly in the financial statements.

## Recommendation

We recommend City management provide adequate oversight of payroll processing, journal entries and financial statement preparation including segregating payroll duties, a detailed review of the financial statements and year-end adjustments by qualified City staff.

## City's Response

*The City of Snohomish would like to thank the State Auditor's Office for its suggestions and recommendations upon the conclusion of the audit for the 2006 calendar year. The City is fully aware of the conditions outlined in the report and has taken the appropriate steps for improvement. The City has hired a new Finance Director. The City has created the new position of Accounting Supervisor pursuant to a suggestion made by the Auditor's Office during the 2005 audit. This position has also been filled. The two positions will provide the necessary depth and professional expertise required for proper internal controls for journal entry review and financial statement preparation and review. The City is segregating Payroll and Human Resource functions in order to control and provide for review of the processes involved, as well as continuing management oversight and control of the two functions. We appreciate the opportunity to work with the Auditor's Office to improve the quality of services for the benefit of the City residents.*

## Auditor's Remarks

We appreciate the City's attention to this matter and will follow up on actions taken by the City during our next audit.

## Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

*Budget Accounting and Reporting System (BARS) Manual, Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:*

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

*Government Auditing Standards, January 2007 Revision, Section 5.11, states in part:*

For all financial audits, auditors should report the following deficiencies in internal control:

a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected . . . .

Independent Auditor's Report on Internal  
Control over Financial Reporting and on  
Compliance and Other Matters in Accordance  
with *Government Auditing Standards*

**City of Snohomish  
Snohomish County  
January 1, 2006 through December 31, 2006**

Mayor and City Council  
City of Snohomish  
Snohomish, Washington

We have audited the financial statements of the City of Snohomish, Snohomish County, Washington, as of and for the year ended December 31, 2006, and have issued our report thereon dated December 14, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies involving the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiency described in the accompanying Schedule of Audit Findings and Responses to be a significant deficiency in internal control over financial reporting, and is reported as Finding 1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial

reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management and the Mayor and City Council. 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.



**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 14, 2007

# Independent Auditor's Report on Financial Statements

## City of Snohomish Snohomish County January 1, 2006 through December 31, 2006

Mayor and City Council  
City of Snohomish  
Snohomish, Washington

We have audited the accompanying financial statements of the City of Snohomish, Snohomish County, Washington, for the year ended December 31, 2006. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the City prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Snohomish, for the year ended December 31, 2006, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt 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 has been subjected to the auditing procedures applied in the audit of the

financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 14, 2007

# Financial Section

**City of Snohomish  
Snohomish County  
January 1, 2006 through December 31, 2006**

## ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2006  
Notes to Financial Statements – 2006

## ***SUPPLEMENTAL INFORMATION***

Schedule of Long-Term Debt – 2006

City of Snohomish  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
For the Year Ended December 31, 2006

BARS CODE		Current Expense 001		Street Fund 102	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$1,685,340	\$1,258,918	\$23,820	\$37,014
<b>Revenues and Other Sources</b>					
310	Taxes	4,685,417	5,120,836	0	67,898
320	Licenses and Permits	242,875	241,768	0	0
330	Intergovernmental	199,075	162,317	292,180	205,081
340	Charges for Goods and Services	244,060	226,053	0	0
350	Fines and Forfeits	174,490	148,759	0	
360	Miscellaneous	15,650	91,111	8,000	2,964
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	603,093	603,093	276,000	182,827
<b>Total Revenues and Other Sources</b>		6,164,660	6,593,937	576,180	458,770
<b>Total Resources</b>		7,850,000	7,852,855	600,000	495,784
Operating Expenditures:					
510	General Government	2,096,443	2,034,778	0	0
520	Public Safety	3,096,205	2,978,018	0	0
530	Physical Environment	764,625	704,264	0	0
540	Transportation	0	0	484,215	451,999
550	Economic Environment	454,044	388,333	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	331,661	348,429	0	0
<b>Total Operating Expenditures</b>		6,742,978	6,453,822	484,215	451,999
591-593	Debt Service				
594-595	Capital Outlay				
<b>Total Expenditures</b>		6,742,978	6,453,822	484,215	451,999
597-599	Other Financing Uses	418,137	309,962	5,420	5,420
<b>Total Expenditures and Other Uses</b>		7,161,115	6,763,784	489,635	457,419
<b>Excess (Deficit) of Resources Over Uses</b>		688,885	1,089,071	110,365	38,365
380	Nonrevenues (Except 384 and 388.80)				
580	Nonexpenditures (Except 584 and 588.80)				
<b>Ending Net Cash and Investments</b>		\$688,885	\$1,089,071	\$110,365	\$38,365

The Accompanying Notes Are An Integral Part Of This Statement.

City of Snohomish  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
For the Year Ended December 31, 2006

BARS CODE		Real Estate Excise Res. 117		Rivertrail Construction 303	
		Budget	Actual	Budget	Actual
		<b>Beginning Net Cash and Investments</b>		\$572,045	\$725,506
<b>Revenues and Other Sources</b>					
310	Taxes	806,480	638,892	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	400,000	397,481
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	10,700	50,414	0	15,635
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	0	0	0	0
<b>Total Revenues and Other Sources</b>		817,180	689,306	400,000	413,116
<b>Total Resources</b>		1,389,225	1,414,812	400,000	585,125
Operating Expenditures:					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	0	0	400,000	250,649
<b>Total Expenditures</b>		0	0	400,000	250,649
597-599	Other Financing Uses	589,000	302,606	0	0
<b>Total Expenditures and Other Uses</b>		589,000	302,606	400,000	250,649
<b>Excess (Deficit) of Resources Over Uses</b>		800,225	1,112,206	0	334,476
380	Nonrevenues (Except 384 and 388.80)	0	0	0	37,123
580	Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>		\$800,225	\$1,112,206	\$0	\$371,599

*The Accompanying Notes Are An Integral Part Of This Statement.*

City of Snohomish  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
 For the Year Ended December 31, 2006

BARS CODE		Water 401		Sewer 402	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$104,855	\$104,991	\$135,045	\$105,091
<b>Revenues and Other Sources</b>					
310	Taxes	0	0	0	0
320	Licenses and Permits	12,000	3,960	3,500	1,750
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	1,607,000	1,503,992	2,222,130	2,151,810
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	38,600	45,553	5,000	23,092
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	0	(11,245)	0	0
<b>Total Revenues and Other Sources</b>		1,657,600	1,542,260	2,230,630	2,176,652
<b>Total Resources</b>		1,762,455	1,647,251	2,365,675	2,281,743
Operating Expenditures:		0	0	0	0
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Physical Environment	1,662,935	1,547,578	2,243,223	2,147,291
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
<b>Total Operating Expenditures</b>		1,662,935	1,547,578	2,243,223	2,147,291
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	0	0	0	0
<b>Total Expenditures</b>		1,662,935	1,547,578	2,243,223	2,147,291
597-599	Other Financing Uses	0	0	0	0
<b>Total Expenditures and Other Uses</b>		1,662,935	1,547,578	2,243,223	2,147,291
<b>Excess (Deficit) of Resources Over Uses</b>		99,520	99,673	122,452	134,452
380	Nonrevenues (Except 384 and 388.80)	0	0	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>		\$99,520	\$99,673	\$122,452	\$134,452

*The Accompanying Notes Are An Integral Part Of This Statement.*

City of Snohomish  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
For the Year Ended December 31, 2006

BARS CODE		Solid Waste 403		Storm Drainage Fund 404	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$78,523	\$67,689	\$2,665	\$8,742
<b>Revenues and Other Sources</b>					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	1,143,977	1,137,011	597,335	516,373
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	2,500	6,286	0	8,514
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	0	0	0	0
<b>Total Revenues and Other Sources</b>		1,146,477	1,143,297	597,335	524,887
<b>Total Resources</b>		1,225,000	1,210,986	600,000	533,629
Operating Expenditures:					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Physical Environment	1,161,952	1,156,287	0	0
540	Transportation	0	0	355,795	305,022
550	Economic Environment	0	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
<b>Total Operating Expenditures</b>		1,161,952	1,156,287	355,795	305,022
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	0	0	0	0
<b>Total Expenditures</b>		1,161,952	1,156,287	355,795	305,022
597-599	Other Financing Uses	0	0	0	0
<b>Total Expenditures and Other Uses</b>		1,161,952	1,156,287	355,795	305,022
<b>Excess (Deficit) of Resources Over Uses</b>		63,048	54,699	244,205	228,607
380	Nonrevenues (Except 384 and 388.80)	0	0	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>		\$63,048	\$54,699	\$244,205	\$228,607

*The Accompanying Notes Are An Integral Part Of This Statement.*

City of Snohomish  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
 For the Year Ended December 31, 2006

BARS CODE		W/S Capital Projects 432		W/S System Replace. 473	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$0	\$0	\$3,093,445	\$2,804,762
<b>Revenues and Other Sources</b>					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	0	0	399,500	199,900
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	0	0	60,001	127,032
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	1,136,000	857,610	447,054	341,664
<b>Total Revenues and Other Sources</b>		1,136,000	857,610	906,555	668,596
<b>Total Resources</b>		1,136,000	857,610	4,000,000	3,473,358
Operating Expenditures:					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	1,136,000	857,610	0	0
<b>Total Expenditures</b>		1,136,000	857,610	0	0
597-599	Other Financing Uses	0	0	595,000	549,136
<b>Total Expenditures and Other Uses</b>		1,136,000	857,610	595,000	549,136
<b>Excess (Deficit) of Resources Over Uses</b>		0	0	3,405,000	2,924,222
380	Nonrevenues (Except 384 and 388.80)	0	0	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	0	(1,297,890)	(1,367,564)
<b>Ending Net Cash and Investments</b>		\$0	\$0	\$2,107,110	\$1,556,658

*The Accompanying Notes Are An Integral Part Of This Statement.*

City of Snohomish  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
 For the Year Ended December 31, 2006

BARS CODE		City Shop 501		Information Services 502	
		Budget	Actual		
<b>Beginning Net Cash and Investments</b>		\$26,523	\$25,082	\$62,792	\$68,829
<b>Revenues and Other Sources</b>					
310	Taxes	0	0	0	0
320	Licenses and Permits	0	0	0	0
330	Intergovernmental	0	0	0	0
340	Charges for Goods and Services	312,934	312,934	367,375	313,298
350	Fines and Forfeits	0	0	0	0
360	Miscellaneous	497	1,678	533	2,267
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	0	5,193	0	0
<b>Total Revenues and Other Sources</b>		313,431	319,805	367,908	315,565
<b>Total Resources</b>		339,954	344,887	430,700	384,394
Operating Expenditures:		0	0	0	0
510	General Government	0	0	389,129	366,793
520	Public Safety	0	0	0	0
530	Physical Environment	0	0	0	0
540	Transportation	324,003	327,764	0	0
550	Economic Environment	0	0	0	0
560	Mental and Physical Health	0	0	0	0
570	Culture and Recreation	0	0	0	0
<b>Total Operating Expenditures</b>		324,003	327,764	389,129	366,793
591-593	Debt Service				
594-595	Capital Outlay				
<b>Total Expenditures</b>		324,003	327,764	389,129	366,793
597-599	Other Financing Uses	0	0	0	0
<b>Total Expenditures and Other Uses</b>		324,003	327,764	389,129	366,793
<b>Excess (Deficit) of Resources Over Uses</b>		15,951	17,123	41,571	17,601
380	Nonrevenues (Except 384 and 388.80)				1,607
580	Nonexpenditures (Except 584 and 588.80)				
<b>Ending Net Cash and Investments</b>		\$15,951	\$17,123	\$41,571	\$19,208

*The Accompanying Notes Are An Integral Part Of This Statement.*

City of Snohomish  
**FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**  
 For the Year Ended December 31, 2006

Fund Type: Special Revenue Funds	Annual Leave Reserve 106		Visitor Promotion 107	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$50,525	\$51,125	\$11,130	\$13,270
Revenue and Other Financing Sources	3,475	2,487	11,545	9,583
<b>Total Resources</b>	54,000	53,612	22,675	22,853
<b>Expenditures And Other Financing Uses</b>	4,000	0	11,600	5,813
<b>Excess (Deficit) of Resources Over Uses</b>	50,000	53,612	11,075	17,040
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$50,000	\$53,612	\$11,075	\$17,040

Fund Type: Special Revenue Funds	Parking and Business Imp 108		Real Property Reserve 110	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$18,190	\$15,789	\$170,690	\$172,498
Revenue and Other Financing Sources	23,350	26,467	7,310	23,065
<b>Total Resources</b>	41,540	42,256	178,000	195,563
<b>Expenditures And Other Financing Uses</b>	35,000	12,441	0	0
<b>Excess (Deficit) of Resources Over Uses</b>	6,540	29,815	178,000	195,563
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$6,540	\$29,815	\$178,000	\$195,563

Fund Type: Special Revenue Funds	Police Operation Res. 113		Municipal Cap. Res. 118	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$23,320	\$33,954	\$111,945	\$112,691
Revenue and Other Financing Sources	11,650	4,995	8,055	5,482
<b>Total Resources</b>	34,970	38,949	120,000	118,173
<b>Expenditures And Other Financing Uses</b>	850	987	0	0
<b>Excess (Deficit) of Resources Over Uses</b>	34,120	37,962	120,000	118,173
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$34,120	\$37,962	\$120,000	\$118,173

Fund Type: Special Revenue Funds	Street Impact Fees 125		Harbor Improvement 174	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$12,100	\$14,505	\$11,715	\$11,782
Revenue and Other Financing Sources	75,600	47,592	785	573
<b>Total Resources</b>	87,700	62,097	12,500	12,355
<b>Expenditures And Other Financing Uses</b>	0	0	0	0
<b>Excess (Deficit) of Resources Over Uses</b>	87,700	62,097	12,500	12,355
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$87,700	\$62,097	\$12,500	\$12,355

The Accompanying Notes Are An Integral Part Of This Financial Statement.

City of Snohomish

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2006

Fund Type: Debt Service Funds	Debt Service 205		LID Guarantee 206	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$4,625	\$32,247	\$8,300	\$8,414
Revenue and Other Financing Sources	147,130	144,706	465	409
<b>Total Resources</b>	151,755	176,953	8,765	8,823
<b>Expenditures And Other Financing Uses</b>	147,125	147,547	0	0
<b>Excess (Deficit) of Resources Over Uses</b>	4,630	29,406	8,765	8,823
Nonrevenues (Except 384 and 388.80)	0	0		
Nonexpenditures (Except 584 and 588.80)		0		
<b>Ending Net Cash and Investments</b>	\$4,630	\$29,406	\$8,765	\$8,823

Fund Type: Debt Service Funds	CLID 86-187-1 214		Municipal Capital Projects 310	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$560	\$565	\$0	\$182,305
Revenue and Other Financing Sources	40	27	1,518,000	165,935
<b>Total Resources</b>	600	592	1,518,000	348,240
<b>Expenditures And Other Financing Uses</b>	0	0	1,518,000	348,240
<b>Excess (Deficit) of Resources Over Uses</b>	600	592	0	0
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$600	\$592	\$0	\$0

Fund Type: Debt Service Funds	Street Capital Projects 311	
	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$0	\$0
Revenue and Other Financing Sources	500,000	183,396
<b>Total Resources</b>	500,000	183,396
<b>Expenditures And Other Financing Uses</b>	500,000	183,396
<b>Excess (Deficit) of Resources Over Uses</b>	0	0
Nonrevenues (Except 384 and 388.80)	0	0
Nonexpenditures (Except 584 and 588.80)	0	0
<b>Ending Net Cash and Investments</b>	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Financial Statement.

City of Snohomish

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2006

Fund Type: Debt Service/Capital Funds	Trunkline Construction 433	
	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$0	\$774,494
Revenue and Other Financing Sources	8,434,000	207,200
<b>Total Resources</b>	8,434,000	981,694
<b>Expenditures And Other Financing Uses</b>	8,434,000	4,082,805
<b>Excess (Deficit) of Resources Over Uses</b>	0	(3,101,111)
Nonrevenues (Except 384 and 388.80)		3,101,140
Nonexpenditures (Except 584 and 588.80)	0	
<b>Ending Net Cash and Investments</b>	\$0	\$29

Fund Type: Special Revenue Funds	Storm Water Management 434		W/S Bond Reserve 451	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$0	\$3,762	\$980,000	\$980,000
Revenue and Other Financing Sources	0	183	45,000	46,641
<b>Total Resources</b>	0	3,945	1,025,000	1,026,641
<b>Expenditures And Other Financing Uses</b>	0	0	45,000	46,641
<b>Excess (Deficit) of Resources Over Uses</b>	0	3,945	980,000	980,000
Nonrevenues (Except 384 and 388.80)				
Nonexpenditures (Except 584 and 588.80)				
<b>Ending Net Cash and Investments</b>	\$0	\$3,945	\$980,000	\$980,000

Fund Type: Special Revenue Funds	W/S Rate Reserve 452		W/S Cum. Resv. Constr. 471	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$63,325	\$124,316	\$1,223,600	\$1,102,434
Revenue and Other Financing Sources	103,675	86,789	381,850	200,957
<b>Total Resources</b>	167,000	211,105	1,605,450	1,303,391
<b>Expenditures And Other Financing Uses</b>	167,000	0	213,000	238,124
<b>Excess (Deficit) of Resources Over Uses</b>	0	211,105	1,392,450	1,065,267
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	(37,123)
<b>Ending Net Cash and Investments</b>	\$0	\$211,105	\$1,392,450	\$1,028,144

Fund Type: Debt Service/Capital Funds	W/S Equip. Replac. 472	
	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$904,780	\$791,768
Revenue and Other Financing Sources	105,220	130,126
<b>Total Resources</b>	1,010,000	921,894
<b>Expenditures And Other Financing Uses</b>	506,395	900
<b>Excess (Deficit) of Resources Over Uses</b>	503,605	920,994
Nonrevenues (Except 384 and 388.80)	0	0
Nonexpenditures (Except 584 and 588.80)	0	0
<b>Ending Net Cash and Investments</b>	\$503,605	\$920,994

The Accompanying Notes Are An Integral Part Of This Financial Statement.

City of Snohomish

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2006

Fund Type: Special Revenue Funds	Sewer Bio-Solid 474		Self Insurance Fund 503	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$435,855	\$439,717	\$15,431	\$12,989
Revenue and Other Financing Sources	54,145	52,202	39,569	39,962
<b>Total Resources</b>	490,000	491,919	55,000	52,951
<b>Expenditures And Other Financing Uses</b>	0	0	41,690	12,069
<b>Excess (Deficit) of Resources Over Uses</b>	490,000	491,919	13,310	40,882
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$490,000	\$491,919	\$13,310	\$40,882

Fund Type: Capital Project Funds	Equipment Replacement 505		Miller Library Trust 602	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$469,480	\$388,842	\$5,335	\$5,034
Revenue and Other Financing Sources	154,775	181,684	165	245
<b>Total Resources</b>	624,255	570,526	5,500	5,279
<b>Expenditures And Other Financing Uses</b>	172,887	410,178	0	0
<b>Excess (Deficit) of Resources Over Uses</b>	451,368	160,348	5,500	5,279
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$451,368	\$160,348	\$5,500	\$5,279

Fund Type: Internal Service/Agency	Senior Center Renovation 603		Carnegie Restoration 604	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$580	\$583	\$45,900	\$41,878
Revenue and Other Financing Sources	45	28	14,100	13,210
<b>Total Resources</b>	625	611	60,000	55,088
<b>Expenditures And Other Financing Uses</b>	0	0	0	7,350
<b>Excess (Deficit) of Resources Over Uses</b>	625	611	60,000	47,738
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$625	\$611	\$60,000	\$47,738

Fund Type: Agency	Gateway Trust 605		Treasurer's Trust 631	
	Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>	\$4,008	\$4,138	\$0	\$27,064
Revenue and Other Financing Sources	492	175	0	0
<b>Total Resources</b>	4,500	4,313	0	27,064
<b>Expenditures And Other Financing Uses</b>	0	1,000	0	0
<b>Excess (Deficit) of Resources Over Uses</b>	4,500	3,313	0	27,064
Nonrevenues (Except 384 and 388.80)	0	0	0	0
Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>	\$4,500	\$3,313	\$0	\$27,064

The Accompanying Notes Are An Integral Part Of This Financial Statement.

**Notes to the Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Snohomish was incorporated on June 30, 1890 and operates under the laws of the State of Washington, applicable to a Category II city, with a Council/Manager form of government. The City is a general-purpose government and provides public safety, fire prevention, street improvements, parks and recreation, water/sewer/stormwater/solid waste, and general administrative services.

The City uses single entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP). The accounting policies of the City conform to the Budgeting, Accounting and Reporting System (BARS) for Category II Local Governments prescribed by the State Auditor's Office under the authority of Washington State Law, Chapter 43.09 RCW.

a. Fund Accounting

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

Governmental fund operating statements focus on measuring changes in financial position, rather than net income; they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses).

General (Current Expense) Fund

This fund is the general operating fund of the City. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

Special Revenue Funds

These funds account for revenues derived from specific taxes, grants, or other sources which are designated to finance particular activities of the City.

Debt Service Funds

These funds account for the City's governmental debt service requirements.

Capital Project Funds

These funds account for financial resources that are designated for the acquisition for construction of general government capital improvements.

**PROPRIETARY FUND TYPES**Enterprise Funds

The City of Snohomish's operates a combined water/sewer/stormwater/solid waste utility that reports less than 5 million in annual revenues. 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 the City's various departments 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 for individuals, private organizations, other governments, and other funds.

Trust Funds

These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of operations. These funds earn revenue on behalf of the parties for which the trust was established, but the principal of the trust must remain intact.

Agency Funds

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

**b. Basis of Accounting**

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

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.

**c. Budget**

Annual appropriated budgets are adopted for the Current Expense, Special Revenue, Debt Service, Capital Projects Funds, Proprietary Funds, and Trust and Agency Funds. Budgetary accounts are integrated in fund ledgers for all budgeted funds.

Annual appropriated budgets are adopted at the level of the fund, except in the general fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

Appropriations for general and special revenue funds lapse at the end of the Calendar year (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriations has been accomplished or abandoned).

The City's budget procedures are mandated by Chapter 35A.33 RCW. The steps in the budget process are as follows:

Prior to November 1, the City Manager submits a proposed budget to the city council. This budget is based on priorities established by the council and estimates provided by city departments during the preceding months, and balanced with revenue estimates made by the City Treasurer.

The Council conducts public hearings on the proposed budget in November and December.

The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.

Within 30 days of adoption, the final budget is available to the public.

The City Manager is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

d. Cash

It is the City's policy to maximize return on investment. All cash surpluses are invested. Cash surpluses are invested in instruments, which allow the City to match investment maturities with liquidity needs. The interest on these investments is prorated and posted to appropriate funds. The City does not maintain compensating balances with any financial institution.

e. Investments See Investment Note #3.

f. Accumulated Unpaid Employee Leave Benefits

The City records accumulated unused vacation, sick leave, or annual leave in the Annual Leave Reserve Fund (106). The City's total liability for unused vacation, sick leave, and annual leave as of December 31, 2006 is \$328,255.26

Owing Fund	Annual Leave / Compensatory Time	Sick Leave	Totals
General Fund	225,752.07	39,332.20	265,084.26
Street Fund	17,589.54	0.00	17,589.54
Internal Services Fund	24,944.01	0.00	24,944.01
Utility Funds	<u>20,637.44</u>	<u>0.00</u>	<u>20,637.44</u>
Total	288,923.06	39,332.20	328,255.26

Annual leave and vacation, which may be accumulated up to 240 hours, is payable upon resignation, retirement, death, or upon request during the term of employment not to exceed cashing out 240 hours per employee. Sick leave may accumulate up to a maximum of 960 hours for law enforcement officers, 1/3 of which is payable upon resignation up to a total of 160 hours, retirement or death. In 1989, the City created an Annual Leave Reserve Fund that is funded from the various operating funds. These monies are used to cash out annual leave, vacation, and sick leave as needed. As of December 31, 2006 the balance in this fund was \$53,612.

g. Long Term Debt See Long Term Debt Note #8.

h. Contributed Capital See Contributed Capital Note #12.

i. Capital Assets

Capital assets are long-lived assets of the City and are recorded as expenditures when purchased.

j. Non-Revenues and Non-Expenditures

The City's non-revenues and non-expenditures consist of interfund transactions; deposits of funds to the City for other entities and residual equity transfers.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.**

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

There have been no expenditures exceeding legal appropriations in any of the funds of the City.

**NOTE 3: INVESTMENTS AND DEPOSITS**

The City's investments are either insured, registered or held by the City or it's agent in the City's name.

Investments at December 31, 2006 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
Local Government Investment Pool	\$ 9,475,470
<b>Total</b>	<b>\$ 9,475,470</b>

To meet immediate claims and payroll demands, the City had deposits at their primary financial institution a total amount of \$784,619 as of December 31, 2006. To meet daily liquidity needs, the City held \$5,820 in various petty cash and imprest funds.

**NOTE 4: PROPERTY TAXES**

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

Property taxes are recorded as revenues when they are received. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, subject to limitations:

- a) Washington State law in RCW 84.55.010 limits the growth of regular property taxes to 1 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 1 percent due to revaluation, the levy rate will be decreased.
- b) The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.
- c) The City of Snohomish limits the total regular property tax by the amount levied by the Sno-Isle Regional Library System.

The City's regular levy for 2006 was \$1.0919 per \$1,000 on an assessed valuation of \$811,910,679 for a regular levy of \$886,493.

The City's General Obligation bond levies for 2006 were \$0.0696 per \$1,000 on an assessed valuation of

\$781,893,710 for a bond levy of \$54,415.

The total 2006 levy for the City was \$940,908 **NOTE 5: PENSION PLANS**

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), 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 by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

### **Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

#### Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an

actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Non-vested	51,004
<b>Total</b>	<b>246,754</b>

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	3.69%	3.69%	3.69%**
Employee	6.00%	3.50%	***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both City and the employees made the required contributions. The City's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2006	\$ 3,651	\$ 80,124	\$ -0-
2005	\$ 3,184	\$ 45,245	\$ 584
2004	\$ 2,351	\$ 28,000	\$ 1,116

**Law Enforcement Officers' & Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 376 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	8,723
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	577
Active Plan Members Vested	12,348
Active Plan Members Nonvested	3,543
<b>Total</b>	<b>25,191</b>

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature has the ability, by means of a special funding arrangement, to appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	4.90%**
Employee	0.00%	7.85%
State	N/A	3.13%

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.03%.

Both City and the employees made the required contributions. The City's required contributions for the years ending December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2006	\$ -0-	\$ 56,760
2005	\$ -0-	\$ 39,167
2004	\$ -0-	\$ 30,667

**NOTE 6: RISK MANAGEMENT**

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 121 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$12 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$15 million per occurrence subject to aggregate sub limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance. In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

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 7: LONG-TERM DEBT AND CAPITAL LEASES**

General Obligation Bonds are direct obligations of the City, for which its full faith and credit are pledged. General Obligation Bonds may be either councilmanic or council approved, or non-councilmanic, which are voter approved. Councilmanic bonds are funded through existing revenue sources. Non-councilmanic bonds are funded through increases to the property tax levy. Debt service is paid from Debt Service Fund (205). As of December 31, 2006, the City had no outstanding councilmanic debt.

The Public Work Trust Funds was created by the State of Washington in 1985 to assist local municipalities and other government agencies within the state to fund local public works projects with low interest loans. Under R.C.W. 39.69, Public Works Trust Fund loans do not impact the City's statutory debt limitation, although the constitutional limitation of debt is effected. Security for repayment of the loans is similar to general obligation and revenue bonds; however, the claims of the City's general creditors are prior to claims of the Public Work Trust Fund.

**Debt Outstanding at 12/31/06.**

General Obligation Bonds

The 1995 Unlimited Fire Station Construction provided funding for the construction of a jointly owned fire station, the purchase of a fire truck and two ambulances, and other improvement to capital facilities. The bonds mature serially to 2014. The interest rates range from 4.3% to 5.85%.

Outstanding Debt 360,000

The 2005 Unlimited Rivertrail (\$765,000) 800 Mhz (\$180,000) provided funding for the Snohomish Rivertrail and the City's required radios and infrastructure to join Snohomish County's 800 Mhz radio system. The bonds mature serially to 2025. Interest rates range from 4.65% to 5.00%.

Outstanding Debt 915,000

1988 Public Works Trust Fund loan provided funding for improvements to Avenue J. The loan is paid in equal installments and matures in 2008. The interest rate is 3% on the outstanding principal balance.

Outstanding Debt \$ 9,937

**Total General Obligation Debt Outstanding \$ 1,284,937**

Revenue Bonds and Other Revenue Debt Obligations

The 1990 USDA Rural Development Loan provided low cost funds for improvement to the City's Water Treatment Plant located on the Pilchuck River. The loan is paid in equal installments and matures in 2021. The interest rate is 5% on the outstanding principal balance.

Outstanding Debt \$783,720

1988 Public Works Trust Fund loan provided funding for construction of the 2.6 million gallon North Zone Water Tank. The loan is paid in equal installments and matures in 2008. The interest rate is 1% on the outstanding principal balance.

Outstanding Debt \$66,748

The 1996 Refunding Bonds provided funding for the redemption of 1990A Water and Sewer Revenue Bonds, which refunded 1987 Revenue Bonds, which provided infrastructure improvements to the water and wastewater system. The bonds mature serially to 2009. The interest rates range from 4.00% to 5.4%.

Outstanding Debt \$595,000

The 1996 Department of Rural and Economic Development (RECD) Loan provided funding for some of the construction of the wastewater treatment plant. The loan matures in 2036 with semi-annual payments of 29,200. The interest rate on the loan is 5.125%.

Outstanding Debt \$888,170

The 2003 Public Works Trust Fund loan provides funding for the design, right-of-way acquisition and construction of Trunkline. The loan was approved for \$1,000,000. Revenues for the repayment of the debt shall come from a special project development fee established on all new connections within the benefit area.

Outstanding Debt \$ 631,580

The 2004 Public Work's Trust Fund Loan provides funding for the construction of the Trunkline. The loan was approved for \$6,934,300, at an annual interest rate of .5%. Currently, the City has drawn only 1,386,860. Revenues for the repayment of the debt shall come from a special project development fee established on all new connections within the benefit area.

Outstanding Debt \$ 3,047,442

The 1994 State Revolving Fund loan provides funding for the construction of the City's Wastewater Treatment Plant. The loan was approved for \$10,829,270. The loan is paid in equal installments and matures in 2016. The loan is at a zero interest rate.

Outstanding Debt \$ 5,243,497

**Total Revenue Bonds and Other Revenue Debt Obligations Outstanding \$ 11,256,157**

**Total Debt Obligations Outstanding \$ 12,541,094**

**Annual Debt Service to Maturity**

The following schedule outlines the City annual debt service to maturity on all bonded debt. Special Assessment debt is an estimate based upon expected collection of outstanding assessments.

Year	General Obligation Debt		Revenue Debt		Total
	Bonded	Other	Bonded	Other	
2007	\$139,980	\$5,267	\$216,560	\$1,160,475	\$1,522,282
2008	141,038	5,117	221,940	1,249,322	1,617,417
2009	136,778	0	221,340	1,213,228	1,571,346
2010	147,498	0	0	1,210,743	1,358,241
2011	142,410	0	0	1,208,158	1,350,568
2012-2016	568,090	0	0	5,729,190	6,297,280
2017-2021	304,800	0	0	3,167,850	3,472,650
2022-2026	247,120	0	0	2,384,997	2,632,117
2027	0	0	0	70,350	70,350
<b>Totals</b>	<b>\$1,827,714</b>	<b>\$10,384</b>	<b>\$659,840</b>	<b>\$17,394,313</b>	<b>\$19,892,251</b>

\* Note – This schedule includes the four(4) draws the City made on its Public Works Trust Fund Loans in 2007. (Note 11)

**Outstanding Capital Leases**

To account for financing leases, lease purchases and installment purchase contracts in governmental funds, the City charges payments made or due during the Calendar period as debt service. In the year that the asset is received, the City records the present value of future lease payments as capital outlay expenditure and as an offsetting other financing source. As of December 31, 2006 the City had no financial commitments under these types of leases.

**Rate Reserve Transfers**

The 1996 Refunding and renegotiation of other outstanding revenue bonds for the City of Snohomish provided the creation of a Rate Reserve Fund (Fund 452), of which transfers could be made from the Rate Reserve Fund to the Sewer Operating Fund (Fund 402) for the purposes of calculating the bond coverage ratio. In 2005, the City budgeted to draw against these funds, however the results of Sewer Fund operations allowed \$50,000 to be transferred to Rate reserve from to the Sewer/Stormwater Operating Fund. This transfer is reported as an other operating income. The Rate Reserve Fund has a balance of \$211,105 as of December 31, 2006 to make future transfers.

**NOTE 8: DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan permits employee to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Effective January 1, 2005, all amounts of compensation deferred under the plans, all property rights purchased with those amounts, and all income attributed to those amounts, property or rights shall be held in trust until paid or made available to the employees or their beneficiaries. Except as may be otherwise permitted or required by law, no assets or incomes of such plans shall be used for, or diverted to, purposes other than for the exclusive purpose of providing benefits for participants and their beneficiaries, or to defray reasonable expense of the administration of the plan.

**NOTE 9: CONTINGENCIES AND LITIGATION**

As of December 31, 2006, there were damage claims and lawsuits pending against the City. However, management believes, and the City Attorney concurs, neither the potential liability from a single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits would materially affect the financial condition of the City.

**NOTE 10: INTERFUND LOANS AND ADVANCES**

Loans between funds are classified as advances to and from other funds on the combined balance sheet. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity.

The following table displays interfund loan activities during 2006:

Borrowing	Lending Fund	Balance	New		Balance
Fund		1-Jan-06	Loans	Payments	31-Dec-06
303	471	483,716	37,123	0	520,839
311	471	58,000	0	0	58,000
433	473	0	1,367,565	0	1,367,565
<b>Totals</b>		<b>541,716</b>	<b>1,404,688</b>	<b>0</b>	<b>1,946,404</b>

**NOTE 11: SUBSEQUENT EVENT – DRAW ON PWTF LOAN**

On January 16, 2007 the City drew \$250,000.00 on its 2003 Public Works Trust Fund Loan. This loan provides funding for the design, right of way acquisition and construction of the Cemetery Creek Trunk Sewer. This is the final draw of the total of \$1,000,000 loan that was approved. The loan matures in 2022 and has a 0.5% annual interest rate.

On February 12, 2007 the City of Snohomish drew \$1,733,575 on its 2004 Public Works Trust Fund loan. On May 14, 2007 the City of Snohomish drew \$1,733,575 on its 2004 Public Works Trust Fund loan. This loan is for the construction of the Trunkline System that provides sanitary sewer to the City's northern Urban Growth Area (UGA). The loan matures in 2024 and has a 0.5% annual interest rate. The total amount of this loan is \$6,934,300 and with this draw, the loan's current balance is \$6,587,585 with \$346,715 remaining to draw.

On June 13, 2007 the City of Snohomish signed a Public works Trust Fund Construction Loan Agreement in the amount of \$7,000,000. The loan agreement is for 20 years at 0.5%. The City of Snohomish is required to provide locally generated revenues in the amount of \$910,384. The loan is for the construction of the Trunkline System that provides sanitary sewer to the City's northern Urban Growth Area (UGA). On June 27, 2007 the City of Snohomish drew \$1,400,000 on this loan.



**City of Snohomish  
Schedule of Long Term Debt  
For The Year Ending December 31, 2006**

G.O. Debt: \_\_\_\_\_  
 Revenue Debt:     X      
 Assessment Debt: \_\_\_\_\_  
 Refunded Debt: \_\_\_\_\_  
 Debt of Special Purposes: \_\_\_\_\_

I.D. Number And Description	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt	Amount Issued Current Period	Amount Redeemed Current Period	BARS Code for Redemption	Redeeming Fund Number	Outstanding Debt
251.11 Federal Home Loan - WWTP	12/1981	12/2021	\$819,000	\$0	\$35,280	534.90.78	401	\$783,720
252.11 PWTF-Water Main Replacement	07/1986	07/2007	1,376	0	1,376	534.80.78	401	\$0
252.11 PWTF-N. Pressure Zone Water Tower	06/1988	06/2008	100,124	0	33,375	534.80.78	401	\$66,749
251.11 Refunding Bond - 1996	11/1996	11/2009	770,000	0	175,000	534.80.72	401	\$595,000
251.11 RECD Loan - WWTP	10/1996	10/2037	900,575	0	11,828	535.85.78	402	\$888,747
251.11 SRF Loan - Loan # L9400002	05/1994	05/2015	5,795,444	0	551,947	535.85.78	402	\$5,243,497
251.11 PWTF-Cemetery Creek Trunk Sewer 1	03/2002	03/2022	671,054	0	39,473	535.85.78	433	\$631,581
251.11 PWTF-Cemetery Creek Trunk Sewer 2	05/2004	05/2024	1,386,860	1,733,575	72,993	535.85.78	433	\$3,047,442
<b>TOTAL REVENUE DEBT</b>			<b>\$10,444,433</b>	<b>\$1,733,575</b>	<b>\$921,272</b>			<b>\$11,256,736</b>



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

**State Auditor**  
**Chief of Staff**  
**Chief Policy Advisor**  
**Director of Administration**  
**Director of State and Local Audits**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free hotline for government efficiency**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Jerry Puggnetti**  
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**Web Site**

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