



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of Pullman

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

Published October 8, 2020

Report No. 1027026





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

October 8, 2020

Mayor and City Council
City of Pullman
Pullman, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Pullman'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

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Pullman 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 financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (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 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.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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 qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2018-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Pullman

January 1, 2018 through December 31, 2018

2018-001 The City's internal controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.

Background

The City Council, the Mayor, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions.

City management is responsible for designing, implementing, and maintaining internal controls to ensure financial statements are prepared and fairly presented in accordance with generally accepted accounting principles (GAAP).

Government Auditing Standards requires auditors to communicate material weaknesses in internal controls, defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness and adversely affect the City's ability to produce accurate and reliable financial statements.

- City staff responsible for financial statement preparation did not fully understand GAAP accounting and reporting requirements.
- The City did not have an effective review process to detect and correct financial statement errors before submitting the annual financial report for audit.
- City staff did not sufficiently research Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, to ensure proper implementation and accurate reporting of the liability.

Cause of Condition

The City prepares its financial statements in accordance with GAAP. These financial statements are complex, and the reporting requirements change frequently. During the past two years, the City experienced turnover in accounting positions responsible for preparing the financial statements. Therefore, staff

members have not been able to dedicate sufficient time or other resources to understand GAAP accounting and reporting requirements, or perform a comprehensive review to ensure accuracy of the financial reports submitted for audit.

Effect of Condition

The material weakness in controls caused the following reporting errors:

- The City did not report its 2018 Bond Fund as a major fund, despite the fund meeting the criteria for major fund reporting.
- The City understated its Other Post-Employment Benefit (OPEB) liability by \$4,488,859, and did not report an associated change in accounting principle of \$4,812,345, because it did not properly implement GASB 75.
- The City understated capital contributions in the Utility Fund by \$7,439,339 because of possible adjusting entry errors in the general ledger.
- In the General Fund, the City misclassified grant amounts passed through to the airport of \$19,567,252 as general government expenditures rather than transportation expenditures.
- The City misclassified \$8,988,253 of fund balance in the 2018 Bond Fund as committed rather than restricted, and \$14,561,424 of governmental activities net position as “designated – unrestricted,” which is not a valid classification of net position.
- The City understated governmental activities net investment in capital assets by \$9,131,237 because it did not exclude unspent bond proceeds from the balance, as required.
- The City overstated Utility Fund revenues by \$7,117,671 because it incorrectly reported bond proceeds as revenue when this activity only increases the long-term liability in proprietary funds.

We also identified other, less-significant errors in the financial statements, notes and supplementary schedules that we communicated to City management during the audit. The City corrected all material errors noted above. However, numerous errors remain uncorrected, including apparent errors between the financial statements, notes and schedules. We agree with management that the uncorrected errors are not material, either separately or combined, to the financial statements taken as a whole.

Recommendations

We recommend the City establish and follow internal controls over financial reporting. Specifically, the City should:

- Dedicate adequate time and resources for staff to understand financial reporting requirements
- Conduct an effective and comprehensive review of the financial statements, notes and schedules for accuracy and compliance with those requirements

City's Response

The Mayor, City Administrator, City Council Audit Committee, and Director of Finance & Administrative Services for the City of Pullman have reviewed this finding. The City response to the Description of Conditions is as follows:

“City staff responsible for financial statement preparation did not fully understand GAAP accounting and reporting requirements.”

- *GAAP Reporting changes frequently. Training opportunities are limited at the state level and more predominantly available nationally - which requires travel, resulting in time away from the office, and expense to the City.*
- *Turnover in the Finance Department has resulted in the top positions with purview over completing the audit report having hire dates of March 2019 (Director of Finance & Administrative Services), October 2017 (Accounting Manager), April 2019 (Accountant and Payroll Specialist), and a new position added in February 2020 (Accountant). None of these individuals were previously involved with the City's financial audit preparations.*
- *Corrective Actions:*
 - *With the recommendation of the Washington State Auditor, the Pullman City Council has authorized the Finance Department to begin reporting to the State Auditor's Office on Cash Basis instead of GAAP. This will give staff more readily available access to in-state training, reduce redundancies in reporting, reduce the risk of adverse audit determinations, and save the taxpayers money both in producing the audit documents as well as in fees assessed by the State Auditor's Office to perform the yearly review. Users of the audited financials are still assured transparency and will still be provided with the necessary information to make financial decisions.*

- *Adding the new position in 2/2020 is the first of two new hires to be requested in the Finance Department – once revenues stabilize in a post-COVID scenario. These positions will help manage a workload that has increased 180.7% since the last time staffing was increased fourteen years ago and be integral to assure timely and accurate reporting.*
- *Requests to allocate budget and time dedicated for staff to pursue necessary training to receive important financial updates, improve skills, and learn best practices to create an efficient and effective Finance Department is included in the Department’s forward work plan.*

“The City did not have an effective review process to detect and correct financial statement errors before submitting the annual financial report for audit.”

- *Based on the information provided above and the timing of audit, the Finance Department concurs with this condition.*
- *Corrective Actions:*
 - *In addition to the corrective actions previously mentioned, the change to Cash Basis reporting has caused an entire rewrite to the notes section of the audit submission. This has been performed using the instructions and templates provided by the State Auditor’s Office. These notes are reviewed by multiple individuals before submission.*
 - *Finance Department turnover has stabilized with new leadership. Moving past the onboarding transitional period has created economies of scale to work flow thus allowing additional time for the review process.*
 - *Switching from GAAP reporting to Cash Basis places more emphasis on State Auditor software reporting schedules uploads versus internally created reports. This will allow staff additional time to assure uploads and created reports are concurrent.*

“City staff did not sufficiently research Government Accounting Standards Board Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pension, to ensure proper implementation and accurate reporting of the liability.”

- *The Director of Finance & Administrative Services takes full responsibility for not researching the change from GASB 45 to GASB 75, which was a change beginning in the 2018 reporting period. The Director should not*

have relied solely on the communication from the State Auditor’s Local Government Support Team May 4, 2019 encouraging him to “. . . use the 2017 report as a guide – not much has changed since last year so it would be just a matter of updating the data to 2018 . . .” Additional research should have been performed to determine whether or not this statement was accurate.

- *Corrective Actions:*
 - *In addition to the corrections previously mentioned, the Finance Department has placed an emphasis on gathering information on changes in reporting and verifying information from official sources to assure reporting items are up to date, comprehensive, and accurate.*
 - *Staff has become familiar with GASB 75 reporting requirements once this information had been brought to the department’s attention.*

Although the Cause of Condition is a direct result of the Description of Condition, the Effects of Condition are important to address for the user of this report and assure that all cash is accounted for and present:

- *The new 2018 Bond Debt Fund, when aggregated with the existing utility revenue bond funds, caused the category to surpass the major fund reporting threshold criteria beginning in this year. These bond dollars were reported in the submission – just not within their own separate category as prescribed. This issue has been addressed, and as completion of work around 2018 Bond projects comes to an end, this fund will revert back to the previous reporting method.*
- *OPEB Liabilities were understated due to not replacing GASB 45 activities with GASB 75 – which was new for 2018 GAAP reporting. It is the responsibility of the Director of Finance & Administrative Services to independently verify GASB reporting requirements, notwithstanding the communication from the State Auditor’s Local Government Support Team dated May 4, 2019. Although the liability was misstated, it had no effect on actual cash operations.*
- *Understated capital contributions in the Utility Fund are a product of donated infrastructure (i.e. street work, placement of utilities, etc.) to the City of Pullman by developers resulting from increased construction. Since the developer performs all work associated with these expenditures and it occurs outside the Finance Department cash handling process, no cash changes hands to capture in the City’s general ledger. The adjusting journal entry to capture this activity in the general ledger was not*

concurrent with the original audit report submission but has since been corrected.

- *Finance Department staff has reclassified the \$19,567,252 as per the finding to reflect transportation expenditures instead of government expenditures. These dollars represent Federal Aviation Administration Grant pass-through funds for the Pullman-Moscow Regional Airport for which the City of Pullman is both the receiving agency and the contracted fiscal agent for the separately audited entity. These grant dollars were received by the City and then passed through to the Airport for its activities without intervening use. Due to the unique nature of the operating agreement of the Airport to encompass the needs of multiple cities, multiple counties, and multiple states, interpreting GASB 24 - which prescribes the treatment of pass-through grants to be recognized as revenue and expenditure to the granting agency – requires careful consideration in its implementation. The original interpretation of the City was that these funds did not increase transportation delivery nor infrastructure of the City of Pullman’s existing operations; specifically, the City of Pullman does operate a Transit system which is properly classified as a transportation expenditure. In a letter dated August 21, 2020, the FAA raised additional concerns with the treatment of pass-through grants that benefit the Airport as transportation expenditures of the City in the manner prescribed by the Washington State Auditor’s Office. The City has considered the benefit of additional language to the operating agreement that would clarify the current administrative and financial involvement of the City with the Airport which would help support the original interpretation utilized by the Finance Department. However, the tremendous success of the existing operating agreement with all of the airport partners takes precedence over such a change, and the City will simply acquiesce to the State Auditor’s recommendation and properly alert the user of this audit report as to the nuances of this relationship in future notes.*
- *The misclassification of fund balances did not change the overall net position of the City of Pullman. Balances remained within the proper designated funds for their proper use. Staff reviewed codified actions and legal restrictions associated with funds and for a better understanding as how to classify according to prescribed definitions.*
- *The unspent portion of bond proceeds required an adjusting journal entry at the end of 2018 for the 2018 Bond Fund. Although there were several factors that led to this omission, additional internal controls have been put in place to correct this activity going forward.*

- *Utility Bond Fund proceeds were properly received by the City and deposited into the proper accounts. The subsequent journal entry to recognize this activity was not completed correctly at time of receipt and this error was missed by the current staff during review. Staffing changes along with modifications to internal controls should prevent this type of error in the future.*
- *Other uncorrected errors stated are not material and do not mislead the user of these audited financial statements. Correcting these non-material items is a labor-intensive activity both to the City as well as to the State Auditor's Office resulting in increased costs to the taxpayers without any substantial benefit. The audited financials reflect that all funds are accounted for & present.*

The City of Pullman takes this finding very seriously, and corrective action has already been taken including adopting language and reporting templates provided directly by the State Auditor's Office. Additional training – both in course accessibility and staff availability, decreased department turnover, staffing increases, additional experience & knowledge gained, and commitment to improving internal controls as well as operational functions will alleviate adverse findings going forward.

Auditor's Remarks

City management is responsible for the proper presentation of financial statements in accordance with the City's chosen basis of accounting. We reaffirm our finding and appreciate the steps the City is taking to correct the errors identified during the audit. We encourage the City to dedicate necessary resources to improve its control structure over financial accounting and reporting.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraphs 7 and 11.

RCW 43.09.200 Local government accounting – Uniform system accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control, requires each local government to establish and maintain effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

**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 Pullman
January 1, 2018 through December 31, 2018**

Mayor and City Council
City of Pullman
Pullman, 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 17, 2020.

As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

As discussed in Note 13 to the financial statements, in March 2020, a state of emergency was declared that could have a negative financial effect on the City.

The City has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

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.

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

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be a material weakness.

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*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 17, 2020

**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 Pullman
January 1, 2018 through December 31, 2018**

Mayor and City Council
City of Pullman
Pullman, Washington

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

We have audited the compliance of the City of Pullman, 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

State Auditor

Olympia, WA

September 17, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Mayor and City Council
City of Pullman
Pullman, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 24.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Street funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the financial statements, in March 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial

reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying 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). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 17, 2020 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

September 17, 2020

FINANCIAL SECTION

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

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018
Statement of Activities – 2018
Balance Sheet – Governmental Funds – 2018
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – 2018
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds – 2018
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2018
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Street Fund – 2018
Statement of Net Position – Proprietary Funds – 2018
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – 2018
Statement of Cash Flows – Proprietary Funds – 2018
Statement of Fiduciary Net Position – Fiduciary Funds – 2018
Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 – 2018
Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2018
Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018
Notes to the Schedule of Expenditures of Federal Awards – 2018

City of Pullman
Statement of Net Position
December 31, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 16,730,596	\$ 19,745,345	\$ 36,475,942
Investments	12,242,275	8,064,480	20,306,755
Receivables (net of allowance for uncollectibles)	959,512	900,929	1,860,441
Due from other government units	911,977	3,346,079	4,258,056
Internal balances	(2,074,721)	2,074,721	-
Inventories	412,840	520,833	933,673
Prepays	63,693	22,018	85,711
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	282,523	10,919	293,442
Permanently restricted:			
Cash and cash equivalents	6,502	-	6,502
Investments	2,938,757	-	2,938,757
Receivables	34,610	-	34,610
Non-depreciable capital assets:			
Land	2,065,345	996,638	3,061,983
Construction in progress	2,657,082	4,353,497	7,010,579
Depreciable capital assets (net of accumulated depreciation):			
Buildings and system	5,770,886	18,393,753	24,164,639
Improvements other than buildings	4,891,318	30,553,946	35,445,264
Machinery and equipment	5,606,431	14,088,358	19,694,789
Infrastructure	22,020,081	-	22,020,081
Net pension asset	2,946,859	1,196,061	4,142,920
Total assets	<u>78,466,565</u>	<u>104,267,578</u>	<u>182,734,143</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	881,337	357,714	1,239,051
LIABILITIES			
Accounts payable and other current liabilities	594,110	699,444	1,293,554
Custodial deposits	645,762	-	645,762
Accrued interest payable	-	28,406	28,406
Accrued wages and benefits	1,315,240	437,187	1,752,426
Unearned revenue	-	43,746	43,746
Liabilities payable from restricted assets	132,479	55,306	187,785
Total OPEB liability - due within one year	209,382	-	209,382
Long term debt - due within one year	425,000	1,581,419	2,006,419
Capital leases - due within one year	44,789	-	44,789
Noncurrent liabilities:			
Compensated absences	684,569	203,585	888,154
Total OPEB liability - due in more than one year	6,891,580	-	6,891,580
Long term debt - due in more than one year	12,475,000	11,556,071	24,031,071
Capital leases	46,659	-	46,659
Net pension liability	3,316,562	1,346,114	4,662,676
Total liabilities	<u>26,781,131</u>	<u>15,951,277</u>	<u>42,732,409</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	2,173,244	882,069	3,055,313
NET POSITION			
Net investment in capital assets	39,150,932	55,248,702	94,399,634
Restricted for:			
Highways and streets	1,370,040	-	1,370,040
Culture and recreation	2,681,832	-	2,681,832
Public safety	6,302	-	6,302
Debt service	-	205,000	205,000
Pension: LEOFF	3,263,730	-	3,263,730
Nonexpendable Perpetual Care	2,994,609	-	2,994,609
Other purposes	9,655,915	-	9,655,915
Unrestricted	<u>(8,729,833)</u>	<u>32,338,243</u>	<u>23,608,411</u>
Total net position	<u>\$ 50,393,527</u>	<u>\$ 87,791,945</u>	<u>\$ 138,185,472</u>

The notes to the financial statements are an integral part of this statement.

City of Pullman
Statement of Activities
For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities		Total
			Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	
Primary Government:								
Governmental Activities:								
General Government	\$ 1,518,635	\$ 642,213	\$ 401,045	\$ -	\$ (475,377)	\$ -	\$ -	\$ (475,377)
Public Safety	14,143,581	1,046,491	1,614,558	-	(11,482,531)	-	-	(11,482,531)
Highways and streets	1,863,613	1,258,823	-	49,263	(555,527)	-	-	(555,527)
Culture and recreation	5,925,532	1,346,947	188,779	-	(4,389,806)	-	-	(4,389,806)
Transportation	20,144,132	-	-	20,144,132	-	-	-	-
Interest on long-term debt	521,836	-	-	-	(521,836)	-	-	(521,836)
Total governmental activities	44,117,329	4,294,475	2,204,382	20,193,395	(17,425,077)	-	-	(17,425,077)
Business-type activities:								
Utilities	9,547,700	12,503,721	81,928	1,406,637	-	4,444,586	-	4,444,586
Transit	4,613,356	2,405,943	2,687,347	-	-	479,934	-	479,934
Total business-type activities	14,161,056	14,909,664	2,769,275	1,406,637	-	4,924,520	-	4,924,520
Total primary government	\$ 58,278,385	\$ 19,204,139	\$ 4,973,657	\$ 21,600,032	(17,425,077)	4,924,520	-	(12,500,557)
General revenues:								
Property taxes					7,495,998	-	-	7,495,998
Sales taxes					5,863,952	-	-	5,863,952
Utility taxes					3,813,457	-	-	3,813,457
Business taxes					754,618	-	-	754,618
Motor vehicle fuel taxes					784,056	-	-	784,056
Excise taxes					584,526	-	-	584,526
Other taxes					1,495,052	-	-	1,495,052
Unrestricted investment earnings					371,949	129,387	-	501,336
Special Revenues					63,527	2,258	-	65,785
Transfers					-	-	-	-
Total general revenues and transfers					21,227,133	131,645	-	21,358,778
Change in net position					3,802,057	5,056,164	-	8,858,221
Change in accounting principle (GASB 75)					(4,812,345)	-	-	(4,812,345)
Net position - beginning					51,403,815	82,735,776	-	134,139,591
Net position - ending					\$ 50,393,527	\$ 87,791,940	-	\$ 138,185,467

The notes to the financial statements are an integral part of this statement.

**City of Pullman
Balance Sheet
Governmental Funds
December 31, 2018**

	General Fund	Streets Fund	Bond Funds	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Cash and cash equivalents	\$ 7,940,275	\$ 4,214,024	\$ 72,768	\$ 1,535,322	\$ 13,762,389
Investments	1,415,415	-	9,067,030	4,698,587	15,181,032
Interest receivable	-	-	2,537	17,364	19,901
Receivables (net of allowance for uncollectibles)	475,491	95,899	-	331	571,721
Taxes receivable	224,451	-	-	34,609	259,060
Other current receivables	206,240	-	-	-	206,240
Interfund loans	-	-	-	-	-
Due from other governmental units	714,844	116,509	-	80,624	911,977
Prepaid items	23,289	-	-	-	23,289
Intergovernmental receivable - restricted	-	-	-	-	-
Total assets	<u>11,000,004</u>	<u>4,426,432</u>	<u>9,142,335</u>	<u>6,366,837</u>	<u>30,935,608</u>
Deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 11,000,004</u>	<u>\$ 4,426,432</u>	<u>\$ 9,142,335</u>	<u>\$ 6,366,837</u>	<u>\$ 30,935,608</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 183,836	\$ 47,296	\$ 10,504	\$ 35,863	\$ 277,499
Other accrued liabilities	-	-	-	-	-
Accrued wages and benefits	1,138,101	40,789	-	5,778	1,184,668
Taxes payable	-	-	-	-	-
Custodial accounts	20,662	-	-	-	20,662
Due to other funds	-	-	-	-	-
Customer deposits	607,470	17,630	-	-	625,100
Matured bonds payable	-	-	-	-	-
Liabilities payable from restricted assets	-	-	132,479	-	132,479
Total liabilities	<u>1,950,068</u>	<u>105,715</u>	<u>142,983</u>	<u>41,641</u>	<u>2,240,407</u>
Deferred inflows of resources from property taxes	165,012	-	2,265	13,167	180,444
Fund balances:					
Nonspendable	23,289	-	-	-	23,289
Nonspendable permanent endowment	-	-	-	2,971,320	2,971,320
Restricted	15,087	1,370,040	8,988,253	3,340,709	13,714,089
Committed	1,343,449	2,583,919	-	-	3,927,368
Assigned	-	366,758	8,834	-	375,592
Unassigned	7,503,099	-	-	-	7,503,099
Total fund balances	<u>8,884,924</u>	<u>4,320,717</u>	<u>8,997,087</u>	<u>6,312,029</u>	<u>28,514,757</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,000,004</u>	<u>\$ 4,426,432</u>	<u>\$ 9,142,335</u>	<u>\$ 6,366,837</u>	<u>\$ 30,935,608</u>

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances:	28,514,757
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	36,590,397
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	\$ 7,357,434
Pension and OPEB costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.	(8,565,880)
Long-term assets not available to pay for current period expenditures and therefore are reported as unavailable revenue in the government funds.	180,444
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(13,683,625)
Net position of governmental activities	<u>\$ 50,393,527</u>

The notes to the financial statements are an integral part of this statement.

City of Pullman
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Bond Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes:					
Property	\$ 7,069,566	\$ -	\$ 6,150	\$ 543,455	\$ 7,619,171
Sales	5,863,952	-	-	-	5,863,952
Utility	2,586,335	1,227,122	-	-	3,813,457
Business	-	46,830	-	707,788	754,618
Motor vehicle fuel	-	784,056	-	-	784,056
Excise	171,218	377,133	-	36,175	584,526
Other	1,375,222	-	-	-	1,375,222
Licenses and permits	824,718	555	-	-	825,273
Intergovernmental	20,144,132	49,263	-	-	20,193,395
Charges for services	4,454,731	102,477	-	6,647	4,563,854
Fines	94,122	-	-	-	94,122
Investment earnings	212,130	3,586	89,641	58,019	363,376
Contributions and donations	11,502	-	-	10,310	21,811
Facility rentals	115,990	-	-	-	115,990
Other miscellaneous revenues	180,050	120,877	-	3,000	303,927
Total revenues	<u>43,103,666</u>	<u>2,711,899</u>	<u>95,791</u>	<u>1,365,393</u>	<u>47,276,749</u>
EXPENDITURES					
Current:					
General government	1,858,542	-	-	-	1,858,542
Public safety	13,909,016	-	-	13,511	13,922,527
Highway and streets	-	1,863,613	-	-	1,863,613
Economic and physical development	-	-	-	-	-
Culture and recreation	5,060,729	-	180	864,623	5,925,532
Transportation	19,899,266	-	-	-	19,899,266
Debt service:					
Principal	-	-	-	-	-
Debt issuance	-	-	168,829	-	168,829
Interest	-	-	153,022	-	153,022
Debt service costs	-	-	153,252	-	153,252
Capital outlay:					
Land	-	-	661,440	-	661,440
Buildings	-	-	2,842,234	-	2,842,234
Highway and streets	-	-	-	-	-
Improvements	231,386	766,842	-	-	998,228
Total expenditures	<u>40,958,940</u>	<u>2,630,455</u>	<u>3,978,957</u>	<u>878,133</u>	<u>48,446,485</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,144,726</u>	<u>81,444</u>	<u>(3,883,166)</u>	<u>487,260</u>	<u>(1,169,736)</u>
OTHER FINANCING SOURCES (USES)					
Insurance recoveries	60,439	264	-	-	60,703
Transfers in	-	-	-	4,818	4,818
Transfers out	(76,466)	-	-	(4,818)	(81,284)
Bond Proceeds & Other Miscellaneous	-	-	12,880,254	-	12,880,254
Capital leases	(46,733)	-	-	-	(46,733)
Total other financing sources and uses	<u>(62,760)</u>	<u>264</u>	<u>12,880,254</u>	<u>-</u>	<u>12,817,758</u>
Net change in fund balances	2,081,966	81,708	8,997,088	487,260	11,648,022
Fund balances - beginning	6,802,958	4,239,011	-	5,824,769	16,866,738
Fund balances - ending	<u>\$ 8,884,924</u>	<u>\$ 4,320,719</u>	<u>\$ 8,997,088</u>	<u>\$ 6,312,029</u>	<u>\$ 28,514,760</u>

The notes to the financial statements are an integral part of this statement.

City of Pullman
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Year Ended December 31, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ 11,648,022

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital outlays	5,273,170	
Depreciation	(1,676,489)	
Contributed/Donated Capital	21,811	
Disposals	<u>(80,025)</u>	3,538,467

The net effect of various miscellaneous transactions involving changes in fund balance (i.e. prior year adjustments, changes in reserves) is to decrease net position.

Change in compensated absences payables 32,743

Revenues earned during the period but not yet available (123,173)

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal; of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Issuance of Long Term GO Bond Debt	(12,900,000)	
Repayment of the principal of long term debt	-	
Expenditures of Issuance Costs	168,829	
Repayment of capital leases	<u>46,733</u>	(12,684,438)

Change in net other postemployment benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 263,465

Change in pension benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 758,174

Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

Internal service funds change in net position	794,476	
Change in adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>(425,680)</u>	<u>368,796</u>

Change in net position of governmental activities \$ 3,802,056

The notes to the financial statements are an integral part of this statement.

City of Pullman
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 7,060,000	\$ 7,060,000	\$ 7,069,566	\$ 9,566
Sales	4,900,000	4,900,000	5,863,952	963,952
Utility	2,372,000	2,372,000	2,586,335	214,335
Excise	157,000	157,000	171,218	14,218
Other	988,000	988,000	1,375,222	387,222
Licenses and permits	542,800	542,800	824,718	281,918
Intergovernmental	479,150	29,672,900	20,144,132	(9,528,768)
Charges for services	4,094,463	4,094,463	4,454,731	360,268
Fines	60,000	60,000	94,122	34,122
Investment earnings	150,000	150,000	212,130	62,130
Contributions and donations	21,000	21,000	11,502	(9,498)
Facility rentals	88,000	88,000	115,990	27,990
Other miscellaneous revenues	42,800	42,800	180,050	137,250
Total revenues	20,955,213	50,148,963	43,103,666	(7,045,297)
EXPENDITURES				
Current:				
General government:				
Council	190,976	217,126	239,691	(22,565)
Mayor & Supervisor	239,332	241,852	214,573	27,279
Attorney	84,000	111,500	111,500	-
Personnel	121,899	123,591	123,860	(269)
Finance and administration	970,244	982,584	887,082	95,502
Other & Pass through Grants	482,386	382,116	281,837	100,279
Total general government	2,088,837	2,058,769	1,858,543	200,226
Public safety:				
Police	7,599,246	7,713,126	6,869,771	843,355
Fire	6,914,377	6,925,297	6,384,772	540,525
Inspection	804,715	812,142	767,504	44,638
Total public safety	15,318,338	15,450,565	14,022,047	1,428,518
Culture and recreation	5,679,450	5,992,257	5,179,085	813,172
Transportation	300,000	29,493,750	19,899,266	9,594,484
Total expenditures	23,386,625	52,995,341	40,958,940	12,036,401
Excess of revenues over expenditures	(2,431,412)	(2,846,378)	2,144,726	4,991,104
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	-	-	60,439	60,439
Transfers in	-	-	-	-
Transfers out	-	-	(76,466)	(76,466)
Capital leases	-	-	(46,733)	(46,733)
Sale of capital assets	300,000	-	-	-
Total other financing sources and uses	300,000	-	(62,760)	(62,760)
Net change in fund balances	(2,131,412)	(2,846,378)	2,081,966	4,928,344
Fund balances - beginning	6,802,958	6,802,958	6,802,958	-
Fund balances - ending	\$ 4,671,546	\$ 3,956,580	\$ 8,884,924	\$ 4,928,344

The notes to the financial statements are an integral part of this statement.

City of Pullman
Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Taxes:				
Utility	\$ 1,181,000	\$ 1,181,000	\$ 1,227,122	\$ 46,122
Business	32,000	32,000	46,830	14,830
Motor vehicle fuel	654,000	654,000	784,056	130,056
Excise	200,000	200,000	377,133	177,133
Licenses and permits	750	750	555	(195)
Intergovernmental	-	-	49,263	49,263
Charges for services	102,000	102,000	102,477	477
Investment earnings	800	800	3,586	2,786
Contributions and donations	-	-	-	-
Other miscellaneous revenues	113,460	113,460	120,877	7,417
Total revenues	<u>2,284,010</u>	<u>2,284,010</u>	<u>2,711,899</u>	<u>427,889</u>
EXPENDITURES				
Current:				
Highway and streets	1,928,494	1,926,189	1,863,613	62,576
Capital outlay:				
Improvements	861,500	983,500	766,842	216,658
Total expenditures	<u>2,789,994</u>	<u>2,909,689</u>	<u>2,630,455</u>	<u>279,234</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(505,984)</u>	<u>(625,679)</u>	<u>81,444</u>	<u>707,123</u>
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	1,000	1,000	264	(736)
Total other financing sources and uses	<u>1,000</u>	<u>1,000</u>	<u>264</u>	<u>(736)</u>
Net change in fund balances	(504,984)	(624,679)	81,708	706,387
Fund balances - beginning	4,239,011	4,239,011	4,239,011	936,188
Fund balances - ending	<u>\$ 3,734,027</u>	<u>\$ 3,614,332</u>	<u>\$ 4,320,719</u>	<u>\$ 1,642,575</u>

The notes to the financial statements are an integral part of this statement.

City of Pullman
Statement of Net Position
Proprietary Funds
December 31, 2018

Business-type Activities-Enterprise Funds

	Utility Fund	Transit Fund	Totals	Governmental Activities- Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 18,790,780	\$ 954,565	\$ 19,745,345	\$ 3,257,232
Investments	8,064,480	-	8,064,480	-
Interest receivable	34,196	-	34,196	4,045
Accounts receivable	850,566	444	851,010	-
Other current receivable	(60,475)	76,199	15,724	-
Intergovernmental receivable	2,490,995	855,084	3,346,079	-
Inventories	520,833	-	520,833	412,840
Prepaid items	18,723	3,295	22,018	40,404
Total current assets	<u>30,710,098</u>	<u>1,889,587</u>	<u>32,599,685</u>	<u>3,714,521</u>
Noncurrent assets:				
Restricted cash, cash equivalents, and investments:				
Customer deposits	10,919	-	10,919	-
Total restricted assets	<u>10,919</u>	<u>-</u>	<u>10,919</u>	<u>-</u>
Non-depreciable capital assets:				
Land	996,638	-	996,638	-
Construction in progress	4,353,497	-	4,353,497	365,719
Depreciable capital assets:				
Buildings and system	24,066,867	2,127,485	26,194,352	1,198,966
Improvements other than buildings	41,217,308	145,165	41,362,473	-
Machinery and equipment	24,247,464	9,965,262	34,212,726	10,373,125
Less accumulated depreciation	(33,259,072)	(5,474,423)	(38,733,494)	(5,517,064)
Total capital assets (net of accumulated depreciation)	<u>61,622,703</u>	<u>6,763,489</u>	<u>68,386,192</u>	<u>6,420,746</u>
Net pension asset	622,681	573,380	1,196,061	348,834
Total noncurrent assets	<u>62,256,303</u>	<u>7,336,869</u>	<u>69,593,172</u>	<u>6,769,580</u>
Total assets	<u>92,966,401</u>	<u>9,226,456</u>	<u>102,192,857</u>	<u>10,484,101</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	186,229	171,485	357,714	104,328

**City of Pullman
Statement of Net Position
Proprietary Funds
December 31, 2018**

Business-type Activities-Enterprise Funds

	Utility Fund	Transit Fund	Totals	Governmental Activities- Internal Service Funds
LIABILITIES				
Current liabilities:				
Accounts payable	606,865	92,579	699,444	316,611
Customer deposits payable	55,306	-	55,306	-
Accrued wages and benefits	226,363	210,824	437,187	130,572
Unearned Revenues	43,746	-	43,746	-
Accrued interest payable	28,406	-	28,406	-
Long term debt - current portion	1,581,419	-	1,581,419	-
Total current liabilities	<u>2,542,105</u>	<u>303,402</u>	<u>2,845,507</u>	<u>447,183</u>
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts)	11,556,071	-	11,556,071	-
Compensated absences	125,399	78,186	203,585	59,237
Total noncurrent liabilities	<u>11,681,470</u>	<u>78,186</u>	<u>11,759,656</u>	<u>59,237</u>
Net pension liability	700,800	645,314	1,346,114	392,597
Total liabilities	<u>14,924,375</u>	<u>1,026,903</u>	<u>15,951,277</u>	<u>899,017</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	459,214	422,855	882,069	257,257
NET POSITION				
Net investment in capital assets	48,485,213	6,763,489	55,248,702	6,653,615
Restricted for debt service	205,000	-	205,000	-
Unrestricted	29,078,828	1,184,694	30,263,522	2,778,540
Total net position	<u>\$ 77,769,041</u>	<u>\$ 7,948,184</u>	<u>85,717,224</u>	<u>\$ 9,432,155</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>2,074,721</u>	
Net position of business-type activities			<u>\$ 87,791,945</u>	

The notes to the financial statements are an integral part of this statement.

City of Pullman
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2018

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal Service Funds
	Utility Fund	Transit Fund	Totals	
Operating revenues:				
Charges for sales and services				
Water and Sewer sales	\$ 10,957,013	\$ -	\$ 10,957,013	\$ -
Tap fees - unpledged	420,802	-	420,802	-
Transit sales	-	2,406,479	2,406,479	-
Other services	1,125,906	(536)	1,125,370	\$ 5,231,772
Total operating revenues	12,503,721	2,405,943	14,909,664	5,231,772
Operating expenses:				
Costs of sales and services	7,421,754	4,013,292	11,435,046	4,103,088
Administration	-	392,221	392,221	-
Depreciation	2,120,210	471,850	2,592,060	541,901
Total operating expenses	9,541,964	4,877,363	14,419,327	4,644,989
Operating income (loss)	2,961,757	(2,471,421)	490,336	586,783
Nonoperating revenues (expenses):				
Intergovernmental	81,928	2,687,347	2,769,275	-
Investment earnings	129,387	-	129,387	8,573
Interest expense	(306,529)	-	(306,529)	-
Insurance recoveries	420	1,838	2,258	-
Gain (Loss) on sale of fixed assets	-	-	-	2,824
Other nonoperating revenues (expenses)	139,125	-	139,125	119,830
Total nonoperating revenue (expenses)	44,331	2,689,185	2,733,516	131,227
Income before contributions and transfers	3,006,088	217,765	3,223,853	718,010
Capital contributions	1,406,637	-	1,406,637	-
Transfers in	-	-	-	104,264
Transfers out	-	-	-	(27,798)
Change in net position	4,412,725	217,765	4,630,490	794,476
Total net position - beginning	73,356,316	7,730,419		8,637,679
Total net position - ending	\$ 77,769,041	\$ 7,948,184		\$ 9,432,155
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			425,680	
Change in net position of business-type activities			\$ 5,056,170	

The notes to the financial statements are an integral part of this statement.

City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

	<u>Business-type Activities-Enterprise Funds</u>			Governmental Activities- Internal Service Funds
	<u>Utility Fund</u>	<u>Transit Fund</u>	<u>Totals</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 19,801,538	\$ 2,195,054	\$ 21,996,592	
Receipts from interfund services provided	-	-	-	\$ 5,260,768
Payments to suppliers and interfund services	(10,626,705)	(1,764,042)	(12,390,747)	(2,347,658)
Payments to employees	(3,011,330)	(2,792,037)	(5,803,367)	(1,650,672)
Net cash provided (used) by operating activities	<u>6,163,503</u>	<u>(2,361,025)</u>	<u>3,802,478</u>	<u>1,262,438</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund Transfers	-	-	-	76,466
Taxes available for operating purposes	-	1,227,124	1,227,124	-
Proceeds from nonoperating	663,243	1,462,061	2,125,304	119,830
Net cash provided (used) by noncapital and related financing activities	<u>663,243</u>	<u>2,689,185</u>	<u>3,352,428</u>	<u>196,296</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(3,302,448)	(206,110)	(3,508,558)	(1,604,338)
Principal paid on capital debt	(2,072,972)	-	(2,072,972)	-
Proceeds from Bonds	7,117,671	-	7,117,671	-
Interest paid on capital debt	(306,529)	-	(306,529)	-
Proceeds from sales of capital assets	-	-	-	1,625
Net cash provided (used) by capital and related financing activities	<u>1,435,722</u>	<u>(206,110)</u>	<u>1,229,612</u>	<u>(1,602,713)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	-	-	500,000
Purchases of investments	(7,196,516)	-	(7,196,516)	-
Premiums and discounts	61,105	-	61,105	-
Interest and dividends received	129,387	-	129,387	8,573
Net cash provided (used) by investing activities	<u>(7,006,024)</u>	<u>-</u>	<u>(7,006,024)</u>	<u>508,573</u>
Net increase in cash and cash equivalents	<u>1,256,444</u>	<u>122,050</u>	<u>1,378,494</u>	<u>364,594</u>
Cash and cash equivalents, January 1	<u>17,534,336</u>	<u>832,515</u>	<u>18,366,851</u>	<u>2,892,638</u>
Cash and cash equivalents, December 31	<u>\$ 18,790,780</u>	<u>\$ 954,565</u>	<u>\$ 19,745,345</u>	<u>\$ 3,257,232</u>

City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

	<u>Business-type Activities-Enterprise Funds</u>			<u>Governmental Activities- Internal Service Funds</u>
	<u>Utility Fun</u>	<u>Transit Fund</u>	<u>Totals</u>	
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 2,961,757	\$ (2,471,421)	\$ 490,336	\$ 586,783
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	2,120,210	471,850	2,592,060	541,901
(Increase) decrease in accounts receivable	(16,243)	(444)	(16,687)	-
(Increase) decrease in current receivable	57,938	14,947	72,885	-
(Increase) decrease in intergovernmental receivable	969,764	(245,810)	723,954	-
(Increase) decrease in interest receivable	(3,460)	-	(3,460)	2,022
(Increase) decrease in inventories	(191,292)	-	(191,292)	16,516
(Increase) decrease in prepaid items	(1,770)	2,568	798	11,310
(Increase) decrease in net pension asset	(194,510)	(169,434)	(363,944)	(113,249)
(Increase) decrease in deferred outflows related to pensions	31,843	34,249	66,092	15,658
Increase (decrease) in accounts payable	329,324	82,441	411,765	223,162
Increase (decrease) in interest payable	(16,672)	-	(16,672)	-
Increase (decrease) in customer deposits	90,181	-	90,181	-
Increase (decrease) in other accrued liabilities	60,475	-	60,475	-
Increase (decrease) in advance revenues	9,085	-	9,085	-
Increase (decrease) in compensated absences payable	(1,806)	(11,460)	(13,266)	(16,767)
Increase (decrease) in net pension liability	(235,074)	(237,611)	(472,685)	(122,362)
Increase (decrease) in deferred inflows related to pensions	191,506	170,293	361,799	109,961
Increase (decrease) in accrued wages and benefits	2,247	(1,194)	1,053	7,503
Total adjustments	<u>3,201,746</u>	<u>110,395</u>	<u>3,312,141</u>	<u>675,655</u>
Net cash provided (used) by operating activities	<u>\$ 6,163,503</u>	<u>\$ (2,361,026)</u>	<u>\$ 3,802,477</u>	<u>\$ 1,262,438</u>

NON-CASH ACTIVITIES:

Assets contributed from developers and customers \$ 1,406,637

The notes to the financial statements are an integral part of this statement.

**City of Pullman
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2018**

		Airport Agency Fund
ASSETS		
Cash	\$	88,372
Investments - LGIP		1,279,045
Receivables		1,995,854
Total assets		3,363,272
DEFERRED OUTFLOWS OF RESOURCES		
LIABILITIES		
Custodial accounts		3,363,272
Total liabilities		3,363,272
DEFERRED INFLOWS OF RESOURCES		
		-
NET POSITION		
Held in trust for pension benefits and other purposes		

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Pullman have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

In 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for postemployment Benefits Other than Pensions (OPEB). This Statement requires the recognition of the City's proportionate share of the state's actuarially determined OPEB liability with a one-year lag measurement date as administered by the Office of the State Actuary. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. This resulted in a change in accounting principle reflected in the Government Wide Statement of Activities.

The City of Pullman has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Reporting and Fund Type Definitions*, during 2011. The City's fund balance classification policies and procedures are as follows:

The Nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, donors or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the City of Pullman Council (i.e., a resolution or ordinance), the City's highest level of decision-making authority. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

Assigned fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Informal Council action is authorized to assign unexpended funds.

Unassigned fund balance is the residual classification for the General Fund. Other governmental funds cannot report a positive unassigned balance but can report a negative unassigned fund if expenditures incurred for specific purposes exceed the amount restricted or committed to those purposes.

For classification of governmental fund balances, the City considers an expenditure to be made from the most restrictive account resource (i.e., restricted, committed, assigned and unassigned in that order) when more than one fund balance classification is available for use.

A. Reporting Entity

The City of Pullman was incorporated on April 11, 1888, and operates under the laws of the state of Washington applicable to a non-charter code City with a mayor-council form of government. As required by the generally accepted accounting principles, the financial statements present the City of Pullman - the primary government.

The Pullman-Moscow Airport provides airport services to the region surrounding the City of Pullman. This activity is neither directly controlled nor dependent upon the City. It is directed by a board of directors composed of representatives from the City of Pullman, Washington State University, the City of Moscow, Idaho and Latah County, Idaho, and derives some financial support from each of these entities and the Port of Whitman. It is not a separate taxing authority. The interlocal agreement establishing this activity directs the City of Pullman to maintain the financial records and reports as required by the laws of the State of Washington. The combined financial statements therefore also include the Pullman-Moscow Airport Agency fund. The Pullman-Moscow Airport also issues its own separate and distinct financial statements. To obtain these separately issued financial statements contact the City's Office of Finance, 325 SE Paradise Street, Pullman, WA 99163.

Blended Component Unit

The elected 7-member council of the City of Pullman serves in an ex-officio capacity as the board of metropolitan park commissioners for the City of Pullman Metropolitan Park District. Although the District is legally separated from the City, the District is reported as if it were part of primary government because its sole purpose is to provide for management, maintenance and improvement of the parks and recreational facilities within the City of Pullman boundaries.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates how the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The established procedure is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes, utility taxes, and other derived tax revenues are accrued in the period in which the underlying exchange transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The City considers property taxes and state distributed taxes as available if they are collected within 30 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

Property taxes, state distributed taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as current fiscal period revenues. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted in another fund.

The **Arterial and Street Funds** (presented together as one major fund) are responsible for the maintenance of all city streets, street lighting, and bridges.

The **Bond Funds** (presented together as one major fund) are an aggregation of projects directly related to the 2018 UTGO Bonds passed by the City of Pullman voters which includes purchase of a structure and subsequent renovation of a new City Hall & Recreation Center, additions to parks & paths, design & construct a community building at Lawson Gardens, improvements to existing parks assets, and acquire land for a potential third fire station.

The City reports the following non-major governmental funds:

The **Other Governmental Funds** include a permanent endowment fund account for contributions and donations from private sources to be expended for improvements and maintenance of the Lawson Gardens Park.

The City reports the following major proprietary funds:

The **Utility and Utility Capital Projects Funds** account for all revenues derived from and expenses incurred in the operation and construction of the water and stormwater systems. The fund also accounts for all revenue derived from and expenses incurred in the operation and construction of the wastewater treatment plant and the sewer system of the City.

The **Transit Fund** accounts for all revenues derived from and expenses incurred in the operation of the public transit system.

Additionally, the City reports the following fund types:

Internal service funds account for the equipment rental division and information systems management, and government building maintenance provided to other departments of the City on a cost reimbursement basis.

Fiduciary funds include the Pullman-Moscow Airport Agency fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's sewer and water functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred regardless of the timing of cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

1. Scope of Budget

Annual appropriated budgets are adopted for all governmental fund types and for all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers broken down by department for all budgeted funds, but the financial statements include budgetary comparisons for only the two major Governmental Funds: General and Arterial/Streets. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Annual appropriated budgets are adopted at the fund level broken down by department, 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 department functions and activities by object class.

Appropriations for general and special revenue funds lapse at year-end.

2. Procedures for Adopting the Original Budget

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

- a. Prior to November 2 the mayor 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 preceding months and balanced with revenue estimates made by the Finance Director.
- b. The council conducts public hearings on the proposed budget in November and December.
- c. The council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
- d. Within 30 days of adoption, the final budget is available to the public.
- e. Beginning with the 2019 and 2020 budgets, the City has adopted a biennial budgeting a cycle.

3. Amending the Budget

The mayor 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.

When the city council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund broken down by department it may do so by ordinance approved by one more than the majority after holding a public hearing.

The budget amounts shown in the financial statements are the original and final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

4. Excess of Expenditures Over Appropriations

The 2018 Cemetery Care Fund had \$4,318.45 worth of expenditures in excess of appropriations. These expenditures were financed by fund reserves.

E. Assets, Liabilities, Fund Balance and Net Position

1. Cash and Equivalents

Cash on hand at December 31, 2018 was \$36,475,942.

For purposes of the statement of cash flows, the city considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Temporary Investments (See Note 4)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered. (See Note 1-C).

4. Amounts Due to and from Other Funds; Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note 15.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

6. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary. Inventories in governmental funds are valued at cost.

Inventories in proprietary funds are valued by the LIFO method.

7. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service including current and delinquent special assessments receivable in enterprise funds. The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements, if any, are described in Note 10.

The restricted assets of the Proprietary funds are composed of the following:

Cash and Investments – Customer Deposits	\$ 10,919
Total Restricted Assets	\$ 10,919

8. Capital Assets (See Note 6)

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings & Improvements	10-60
Infrastructure	40
Light/Heavy Transportation Equipment	5-10
Other Equipment	2-20
Heavy Equipment	10
Water Mains	60
Water Hydrants	50-60
Sewer Interceptors	100

Property, plant and equipment assets within the governmental activity funds except the equipment rental division fund are depreciated for a full year regardless of the month the asset was put in service. Property, plant and equipment assets within the business-type activity funds and the equipment rental division fund are depreciated partial years depending on the month the asset was put in service.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

9. Custodial Accounts

This account reflects the liability for monetary assets being held by the City in its trustee or agency capacity.

10. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 800 hours. Outstanding sick leave is not payable upon resignation, retirement or death.

11. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

12. Long-term Debt (See Note 10)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

13. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. (See Note 1-C)

14. Fund Equity

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

15. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. Other

1. Stabilization Arrangements

The City established one stabilization arrangement. The debt service reserve account balance at December 31, 2018 is \$205,000. The total \$205,000 is disclosed as restricted debt service on the Statement of Net Position.

The stabilization arrangement was approved by Council Ordinance number 09-20 establishing the debt service reserve account. The debt service reserve account is maintained for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

2. Budgeting, Accounting and Reporting System (BARS)

The State of Washington's Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System (BARS) manual. The purpose of this manual is to provide uniformity in budgeting, accounting and reporting by all local government entities within the State of Washington.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds' balance sheet includes a reconciliation between fund balance – total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. The reconciliation is as follows:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	\$2,065,345	
Buildings and systems	8,561,032	
Improvements other than buildings	7,971,249	
Machinery and equipment	3,809,927	
Infrastructure	34,932,593	
Construction in progress	2,291,363	
Accumulated depreciation	(23,041,112)	<u>\$36,590,397</u>
Internal service funds are used by management to charge the costs of fleet management and management of information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
Internal service funds total net position	\$9,432,155	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(2,074,721)	<u>\$7,357,434</u>
Pension and OPEB costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Net pension asset	\$2,946,859	
Deferred outflows related to pensions	881,337	
Net pension liability	(3,316,562)	
Deferred inflows related to pensions	(2,173,244)	
Other Post Employment Benefits Payable	(7,100,962)	
Internal service funds pension cost	<u>196,693</u>	<u>\$8,565,880</u>
Long-term assets not available to pay for current period expenditures and therefore are reported as unavailable revenue in the government funds.		
Unearned revenue beyond the city's 30-day measureable and available period		<u>\$180,444</u>

Long term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Bonds Payable	\$(12,900,000)	
Compensated absences	(684,569)	
Compensated absences for internal service funds	59,237	
Allowance for doubtful accounts	(66,845)	
Capital leases	(91,448)	<u>(\$13,683,625)</u>

B. Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 - DEPOSITS AND INVESTMENTS

DEPOSITS

Cash on hand at December 31, 2018 was \$26,038,032. The carrying amount of the City's deposits, including certificates of deposit, was \$26,038,032 and the bank balance was \$25,294,642.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's total cash position of \$36,775,885 and \$23,245,512 in investments, \$0 is exposed to custodial credit risk because the investments are held by the City's brokerage firm, which is also the counterparty in those particular securities.

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 (PDPC).

INVESTMENTS

As required by state law, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions. All investments are stated fair market value, as it is the intent of the City to hold all investments until their stated maturities. Also, the interest earned on investments owned by the Cemetery Care Fund is credited to the General Fund, as the operation and maintenance expenditures of the City's cemeteries are included in the General Fund or the Cemetery Expansion Fund for cemetery capital improvements. Other property is shown on the combined balance sheet at fair market value.

	Fair Value	
	City Owned	
	<u>Investments</u>	<u>Total</u>
U.S. Government Securities	\$7,200,451	\$7,200,451
Municipal Bonds	-	-
State Local Government Investment Pool	<u>16,045,061</u>	<u>16,045,061</u>
TOTAL	<u>\$23,245,512</u>	<u>\$23,245,512</u>

During the period covered by this financial statement, there were no exceptions to the City's investment policy, nor did the City use reverse repurchase agreements. During this period, the City did not use, hold nor sell any derivatives or similar instruments, nor did the City participate in any securities lending transactions. There were no sales of securities at other than maturity or call dates that resulted in realized gains or losses.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's total position of \$23,245,512 in investments, \$0 is exposed to custodial credit risk because the investments are held by the City's brokerage firm, which is also the counterparty in those particular securities.

Investments in Local Government Investment Pool (LGIP)

The city is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

NOTE 5 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar

- January 1 Taxes are levied and become an enforceable lien against properties.
- February 14 Tax bills are mailed.
- April 30 First of two equal installment payments is due.
- May 31 Assessed value of property established for next year's levy at 100 percent of market value.
- October 31 Second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as deferred inflow and recognized as revenue of the period to which it applies. 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. The Washington State Constitution and Washington State law in RCW 84.55.010 limit the levy rate.

For 2018 the City levied the following property taxes on an assessed value of \$1,928,866,223 (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

<u>Purpose of Levy</u>	<u>Levy Rate</u> <u>per \$1,000</u>	<u>Total</u> <u>Levy Amount</u>
General Government	\$ 3.3979	\$6,554,028
EMS Levy	0.4719	910,298
Special GO Bond Levy	<u>0.5422</u>	<u>1,043,342</u>
TOTALS	<u>\$ 4.4120</u>	<u>\$8,507,668</u>

Washington State Constitution and Washington State Law RCW 84.55.010 limit this rate.

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets as of December 31, 2018 follows:

	<u>Balance</u> <u>1/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2018</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$1,319,898	\$745,447	\$ -	\$2,065,345
Construction In Progress	<u>3,115,556</u>	<u>1,812,126</u>	<u>2,270,600</u>	<u>2,657,082</u>
Total Capital Assets, Not Being Depreciated:	<u>4,435,454</u>	<u>2,557,573</u>	<u>2,270,600</u>	<u>4,722,427</u>
Capital Assets, Being Depreciated:				
Buildings	6,917,764	2,842,234	-	9,759,998
Other Improvements	6,984,346	1,048,863	61,959	7,971,249
Machinery and Equipment	11,728,528	2,494,993	40,469	14,183,052
Infrastructure	<u>34,932,593</u>	-	-	<u>34,932,593</u>
Total Capital Assets, Being Depreciated:	<u>60,563,231</u>	<u>6,386,090</u>	<u>102,428</u>	<u>66,846,892</u>
Less Accumulated Depreciation For:				
Buildings	(3,765,478)	(223,634)	-	(3,989,112)
Other Improvements	(2,859,459)	(222,427)	(1,956)	(3,079,931)
Machinery and Equipment	(7,734,285)	(862,781)	(20,447)	(8,576,619)
Infrastructure	<u>(12,002,966)</u>	<u>(909,546)</u>	-	<u>(12,912,512)</u>
Total Accumulated Depreciation	<u>(26,362,188)</u>	<u>(2,218,389)</u>	<u>(22,403)</u>	<u>(28,558,174)</u>
Total Capital Assets, Being Depreciated, Net:	<u>34,201,043</u>	<u>4,167,700</u>	<u>80,025</u>	<u>38,288,718</u>
Governmental Activities Capital Assets, Net:	<u>\$38,636,497</u>	<u>\$6,725,272</u>	<u>\$2,350,625</u>	<u>\$43,011,144</u>

	<u>Balance</u> <u>1/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2018</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$996,638	\$ -	\$ -	\$996,638
Construction In Progress	<u>3,315,140</u>	<u>5,257,689</u>	<u>4,219,333</u>	<u>4,353,496</u>
Total Capital Assets, Not Being Depreciated:	<u>4,311,778</u>	<u>5,257,689</u>	<u>4,219,333</u>	<u>5,350,134</u>
Capital Assets, Being Depreciated:				
Plant in Service **	<u>97,343,658</u>	<u>5,085,457</u>	<u>659,564</u>	<u>101,769,551</u>
Total Capital Assets, Being Depreciated:	<u>97,343,658</u>	<u>5,085,457</u>	<u>659,564</u>	<u>101,769,551</u>
Less Accumulated Depreciation For:				
Plant in Service **	<u>(36,141,433)</u>	<u>(2,592,061)</u>	<u>-</u>	<u>(38,733,494)</u>
Total Accumulated Depreciation	<u>(36,141,433)</u>	<u>(2,592,061)</u>	<u>-</u>	<u>(38,733,494)</u>
Total Capital Assets, Being Depreciated, Net:	<u>61,202,225</u>	<u>2,493,396</u>	<u>659,564</u>	<u>63,036,057</u>
Business-Type Activities Capital Assets, Net:	<u>\$65,514,003</u>	<u>\$7,751,085</u>	<u>\$4,878,897</u>	<u>\$68,386,191</u>
Governmental Activities:				
General Government		642,267		
Safety		404,351		
Transportation		944,413		
Culture and Recreation		<u>227,358</u>		
Total Depreciation – Governmental Activities		<u>\$2,218,389</u>		
Business-Type Activities:				
Water and Sewer		\$2,066,425		
Stormwater		48,645		
Transit		<u>476,991</u>		
Total Depreciation – Business-Type Activities		<u>\$2,592,061</u>		

****The caption, Plant in Service, consists of Buildings and system, Improvements other than buildings and Machinery and equipment.**

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (4,662,676)
Pension assets	\$ 4,142,920
Deferred outflows of resources	\$ 1,239,051
Deferred inflows of resources	\$ (3,055,313)
Pension expense/expenditures	\$ (92,450)

State Sponsored Pension Plans

Substantially all City of Pullman 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 state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

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

A. Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest

consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September – December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%
September – December 2018		
PERS Plan 2/3	7.52%	7.41%

PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

* For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

The City's actual PERS plan contributions were \$505,335 to PERS Plan 1 and \$708,620 to PERS Plan 2/3 for the year ended December 31, 2018.

B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS 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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2018. Employers paid only the administrative expense of 0.18% of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service

and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18%. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The City’s actual contributions to the plan were \$315,563 for the year ended December 31, 2018.

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. For the state fiscal year ending June 30, 2018, the state contributed \$68,152,127 to LEOFF Plan 2. The amount recognized by the (city/county/district) as its proportionate share of this amount is \$200,676.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5% except LEOFF 2, which has assumed 7.4%). Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City proportionate share of the net pension liability calculated using the discount rate of 7.4%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$3,942,812	\$3,208,310	\$2,572,082
PERS 2/3	\$6,793,613	\$1,454,366	\$(2,886,997)
LEOFF 1	\$(409,161)	\$(514,332)	\$(604,878)
LEOFF 2	\$(482,534)	\$(3,628,588)	\$(6,194,561)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the City reported a total pension liability of \$4,662,676 and a total pension asset of \$4,142,920 for a net total of \$519,756 of its proportionate share of the net pension liabilities or (assets) as follows:

	Liability (or Asset)
PERS 1	\$3,208,310
PERS 2/3	\$1,454,366
LEOFF 1	\$(514,332)
LEOFF 2	\$(3,628,588)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$(514,332)	\$(3,628,588)
State's proportionate share of the net pension asset associated with the employer	\$ -	\$111,084
TOTAL	\$(514,332)	\$(3,517,504)

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.0745%	0.0718%	(2.9834%)
PERS 2/3	0.0905%	0.0870%	(3.8674%)
LEOFF 1	0.0289%	0.0283%	(2.0761%)
LEOFF 2	0.1866%	0.1787%	(4.2337%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2018, the state of Washington contributed 87.12% of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88% of employer contributions. LEOFF 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. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2018, the state of Washington contributed 39.30% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.70% of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$151,101
PERS 2/3	\$(20,540)
LEOFF 1	\$(74,596)
LEOFF 2	\$(148,415)
TOTAL	\$(92,450)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	(\$127,496)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	<u>\$260,999</u>	<u>\$ -</u>
TOTAL	<u>\$260,999</u>	<u>(\$127,496)</u>

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$178,267	(\$254,633)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	(892,467)
Changes of assumptions	\$17,014	(\$413,901)
Changes in proportion and differences between contributions and proportionate share of contributions	\$16,003	(\$4,183)
Contributions subsequent to the measurement date	<u>\$357,492</u>	<u>\$ -</u>
TOTAL	<u>\$568,776</u>	<u>(\$1,565,184)</u>

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension	\$ -	(\$41,756)

plan investments		
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	\$ -	(\$41,756)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$194,376	(\$84,256)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	(\$635,052)
Changes of assumptions	\$2,054	(\$520,768)
Changes in proportion and differences between contributions and proportionate share of contributions	\$43,946	(\$80,801)
Contributions subsequent to the measurement date	<u>\$168,900</u>	<u>\$ -</u>
TOTAL	<u>\$409,276</u>	<u>(\$1,320,877)</u>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2019	\$5,578
2020	\$(27,871)
2021	\$(83,634)
2022	\$(21,569)
2023	
Thereafter	

Year ended December 31:	PERS 2/3
2019	\$(150,048)
2020	\$(315,813)
2021	\$(563,847)

2022	\$(219,863)
2023	\$(92,449)
Thereafter	\$(223,165)

Year ended December 31:	LEOFF 1
2019	\$40
2020	\$(9,420)
2021	\$(25,656)
2022	\$(6,720)
2023	
Thereafter	

Year ended December 31:	LEOFF 2
2019	\$(91,316)
2020	\$(187,467)
2021	\$(385,999)
2022	\$(128,894)
2023	\$(38,862)
Thereafter	\$(488,338)

NOTE 8 - RISK MANAGEMENT

The City of Pullman is a member of the Washington Cities Insurance Authority (WCIA).

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

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, employment practices, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregate sub-limits. 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 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 sub-limits. 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 sub-limits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigation consultants for personnel issues and land use problems, 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, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

The City of Pullman separately purchases commercial standard property insurance coverage for building and personal property; automobile physical damage, inland marine. Boiler and machinery coverage is also purchased. Various deductibles apply by type of coverage.

There were no significant reductions in insurance coverage from the previous year. The settlements have not exceeded coverage for each of the past three fiscal years. Additionally, No insurance settlements have exceeded insurance coverage in 2018 or either of the two preceding fiscal years.

The City of Pullman is a member of the Washington State Transit Insurance Pool (WSTIP).

WSTIP is a 25 member self-insurance program located in Olympia, Washington. WSTIP supplies the city of Pullman auto liability, general liability, public officials liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2018, the city of Pullman retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. The city of Pullman has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

WSTIP was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving six-month's notice. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

Transit authorities applying for membership in WSTIP may do so on approval of a simple majority vote of the WSTIP Board of Directors. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Governmental Entities Mutual, Munich Re, and Arch for the liability lines; Alterra and Evanston for auto physical damage; American International Group Inc (AIG)/National Union Fire Insurance for the crime policy; and Beazley for the cyber liability policy. The property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

The city of Pullman has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Here is a summary of coverage provided in 2018:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$20 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$20 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage	\$60,000	Per occurrence	\$0
PUBLIC OFFICIALS LIABILITY	\$20 million	Per occurrence and aggregate	\$5,000
AUTO PHYSICAL DAMAGE			
Auto Physical Damage (below \$250,000 in value)	Fair market value	Limited to \$1,250,000 any one vehicle	\$5,000
Auto Physical Damage for all vehicle with a model year of 2005 or later and valued over \$250,000	Replacement Cost	Limited to \$1,250,000 any one vehicle	\$5,000
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000

			depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000

NOTE 9 - SHORT-TERM DEBT

The City short-term debt is directly related to current payments on long-term debt payable.

NOTE 10 - LONG-TERM DEBT

A. Long-Term Debt

The City issues general obligation and revenue bonds to finance the acquisition or construction of major capital assets. Bonded indebtedness has also been entered into in prior years to advance refund general obligation and revenue bonds. General obligation bonds have been issued for general government and business-type activities and are being repaid from the applicable resources. Revenue bonds are repaid by proprietary fund revenues.

In proprietary and similar trust funds, unamortized debt issue costs are recorded as an asset and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

DEBT
OUTSTANDING
December 31, 2018

Bonds and Loans:

2009: \$2,685,000 Water and Sewer Revenue Bond; annual installments until 2029 at various rates between 3.00 and 4.75 percent; proceeds for construction of Airport Water Line and Well 8. Repayments from water/sewer revenues. 1,720,000

2012: \$7,301,092 State of Washington Department of Ecology Water Pollution Control Revolving Fund Loan; annual installments start September 2015 until 2024 at 2.60%; proceeds for secondary process improvements project. Repayment from water/sewer revenues. 4,460,659

2018: \$10,500,000 Umpqua Bank City Hall General Obligation Bond; semi-annual installments start June 2019 until December 2037 at 2.82%; proceeds for purchase and improvements to New City Hall Building project. Repayment from voter approved property tax levy. 10,500,000

2018: \$2,400,000 Umpqua Bank Parks and Pathways General Obligation Bond; semi-annual installments start June 2019 until December 2027 at 2.48%; proceeds for improvements to parks and trails projects. Repayment from voter approved property tax levy. 2,400,000

2018: \$6,048,211 Umpqua Bank Water and Sewer Revenue Bond; semi-annual installments start December 2018 until December 2028 at 2.38%; proceeds for improvements to the water/sewer utility project. Repayment from water/sewer revenues. 5,745,929

2018: \$1,069,460 Umpqua Bank Water and Sewer Revenue Bond; semi-annual installments start December 2018 until December 2023 at 2.38%; proceeds for improvements to the water/sewer utility project. Repayment from water/sewer revenues. (Proceeds from this Bond were used to repay the 2014 Columbia State Bank Water and Sewer Revenue Bond.) 891,233

At December 31, 2018, the City has restricted assets in proprietary funds containing \$0 in sinking funds and \$205,000 reserves as required by bond indentures.

The annual debt service requirements to maturity for all long-term debt including Capital Leases are as follows:

Year Ending <u>December 31</u>	Governmental Activities		Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	425,000	462,172	1,581,419	347,653
2020	699,078	346,212	1,612,198	306,561
2021	717,929	325,413	1,653,865	264,394
2022	737,291	306,051	1,701,442	220,967
2023-2027	3,995,725	1,220,984	5,221,606	548,756
2028-2032	2,942,973	730,452	1,366,960	44,929
2033-2037	<u>3,382,004</u>	<u>291,420</u>	-	-
TOTALS	<u>\$12,900,000</u>	<u>\$3,662,704</u>	<u>\$13,137,490</u>	<u>\$1,733,260</u>

NOTE 11 - LEASES

A. Capital Leases

The City had one capital lease. Defibrillators were leased for the fire department with a down payment of \$48,606 and a maturity in 2020.

These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	Governmental Activities
Defibrillators	\$273,219
Less Accumulated Depreciation	89,728
Total	<u>\$183,491</u>

The future minimum lease obligation and the net present value of these minimum lease payments for all Capital Leases are as follows:

<u>December 31</u>	<u>Minimum Lease Payments</u>	<u>Less: Interest</u>	<u>Present Value of Minimum Lease Payments</u>	<u>Balance</u>
2018				\$91,448
2019	48,606	3,817	44,789	\$46,659
2020	<u>48,608</u>	<u>1,949</u>	<u>46,659</u>	\$(0)
TOTALS	<u>\$97,214</u>	<u>\$5,766</u>	<u>\$91,448</u>	

NOTE 12 - CHANGES TO LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	Balance 1/1/2018	Additions	Reductions	Balance 12/31/2018	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ -	\$12,900,000	\$ -	\$12,900,000	\$425,000
Capital Leases	134,443	-	42,995	91,448	44,789
Total OPEB Liability	2,552,082	4,758,262	209,382	7,100,962	209,382
Net Pension Liability	4,799,828	3,316,562	4,799,828	3,316,562	-
Compensated Absences	<u>734,079</u>	<u>-</u>	<u>32,743</u>	<u>684,569</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$8,220,432</u>	<u>\$20,974,824</u>	<u>\$5,084,948</u>	<u>\$24,093,541</u>	<u>\$679,171</u>
Business-Type Activities:					
Bonds:					
Revenue Bonds	\$2,887,362	\$7,117,671	\$1,647,754	\$8,357,279	\$817,054
Government, Bank, and Other Loans	5,205,428	-	425,217	4,780,211	764,365
Net Pension Liability	1,818,799	1,346,114	1,818,799	1,346,114	-
Compensated Absences	<u>216,851</u>	<u>16,767</u>	<u>30,033</u>	<u>203,585</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$10,128,440</u>	<u>\$8,480,552</u>	<u>\$3,921,803</u>	<u>\$14,687,189</u>	<u>\$1,581,419</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$59,237 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 - CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including any estimates for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, insurance policies are adequate to pay all known or pending claims except the claim described below.

The City participates in a number of federal-and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

On July 22, 2014, resolution R-70-14 was passed by Council authorizing the execution of a Joint Operating Agreement for the Pullman-Moscow Regional Airport. The agreement solidifies Pullman and Moscow as equal and joint partners in the operation of the airport, with all related rights and responsibilities, including financial. Approval and execution of the agreement by both Pullman and Moscow will qualify the Pullman-Moscow Regional Airport for Federal Aviation Administration (FAA) grants. The Pullman-Moscow Regional Airport is requesting a FAA grant for the runway re-alignment, which will require an estimated local matching fund of \$6,250,000. The City of Pullman is committed to their one-half share of approximately \$3,125,000 over six years to provide for grant match funds. This exposure is expected to be reduced by fundraising efforts. On July 21, 2015, resolution R-56-15 was passed by Council authorizing a \$2,500,000 restricted donation of local match funds for the Pullman-Moscow Regional Airport Runway Realignment Project. As of December 31, 2018, total donations received for this project was \$6,475,000. As of December 31, 2018, the City of Pullman has funded \$2,200,000 for this commitment.

On Jan 4th, 2010 the City as well as several other cities in Washington received a Petition for Refund, from Verizon Northwest dated December 31, 2009, in the amount of \$187,250 for utility taxes paid on DSL service from January 1, 2005 through June 30, 2008. There were no supporting documents for the refund amount. No suit has been filed. Management feels that the claim is not substantiated, and thus there is no way at present to determine the validity or dollar amount of a potential refund. If the claimant's petition is successful, 50% of the claim would be charged to the General Fund, with the remaining amount evenly split between the Street and Transit Funds. Due to the uncertainty, validity and dollar amount of any potential judgment in favor of the Petitioner, there have been no adjustments made to the records of these funds.

On October 24, 2016, Mr. Lankford filed a suit for complaint for damages of \$2.0 million for causing to suffer deprivation of his liberty and civil and constitutional rights, and mental and emotional distress. Most of the parties and allegations were dismissed on summary judgment. Plaintiff counsel has indicated he will appeal these dismissals upon completion of trial. It is unlikely punitive damages will be awarded. If punitive damages are not awarded, the claim is covered by insurance through the Washington Cities Insurance Authority insurance pool.

On November 19, 2019 the City received notice of a potential claim with respect to former city employee Colleen Lenz and her separation of employment in January of 2019. On September 10, 2020 a summons and complaint for damages were filed with the Superior Court of Whitman County. Neither filing includes a specific dollar amount request and an amount cannot be reasonably estimable at this time in terms of cost to defend the City in this action nor for paying an unfavorable judgement. Legal representation through the WCIA has been provided with this information.

On March 13, 2020 the Washington State Governor banned all gatherings of 250 people or more statewide due to COVID-19 concerns. As the days and weeks progressed, more proclamations were made restricting or imposing activities across all communities of Washington State. Emergency Proclamations now exist at the Federal, State, County, and City levels for this outbreak. Although the material costs to the City of Pullman cannot be reasonably estimated at this time; a financial impact is assured and activities to help mitigate the potential damage have been implemented while the rapidly changing situation continues to be monitored.

NOTE 14 - RESTRICTED COMPONENT OF NET POSITION

These resources are set aside for specific uses and/or are restricted by law for specific purposes. The government-wide statement of net position reports \$20,186,261 of restricted component of net position, \$1,370,040 for highway and streets, \$2,681,832 for culture and recreation, \$6,302 for public safety, \$205,000 for debt service, \$282,854 for nonexpendable cemetery perpetual care, \$2,711,755 for nonexpendable permanent endowment, a LEOFF pension entry of \$3,263,730, and \$9,664,749 for other purposes.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

A. Classification of Interfund Transactions

Interfund transactions are classified as follows:

1. 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.
2. Transfers to support the operations of other funds are recorded as "Transfers" and classified with "Other Financing Sources or Uses."
3. Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds on the combined balance sheet depending on the time period for which the loan was made. 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 activity during 2018:

<u>Fund Type</u>	Transfers	
	<u>In</u>	<u>Out</u>
General Fund	-	(\$76,466)
Street	-	-
Other Gov't Funds	4,818	(4,818)
Internal Service	104,264	(27,798)
Agency	-	-
Fiduciary	-	-
Proprietary	-	-
Totals	<u>\$109,082</u>	<u>\$(109,082)</u>

NOTE 16 - RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2018 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	Due from Other Government Units	<u>Other</u>	<u>Total</u>
Governmental Activities:					
General Fund	\$475,491	\$224,451	\$714,844	\$206,240	\$1,621,026
Street Fund	95,899	-	116,509	-	212,408
Other Governmental Funds	331	34,609	80,624	19,901	135,465
Internal Service Funds	-	-	-	4,045	4,045
Doubtful Accounts	<u>(66,845)</u>	-	-	-	<u>(66,845)</u>
Total					
Governmental Activities	<u>\$504,876</u>	<u>\$259,060</u>	<u>911,977</u>	<u>\$230,186</u>	<u>\$1,906,099</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-Type Activities:					
Utility Fund	\$850,566	\$ -	\$2,490,995	\$(60,475)	\$3,281,086
Transit Fund	<u>444</u>	<u>-</u>	<u>855,084</u>	<u>76,199</u>	<u>931,727</u>
Total					
Business-Type Activities	<u>\$851,010</u>	<u>\$ -</u>	<u>3,346,079</u>	<u>\$15,724</u>	<u>\$4,212,813</u>

B. Payables

Payables at December 31, 2018 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$183,836	\$1,101,416	\$829,828	\$2,115,080
Street Fund	47,296	40,789	17,630	105,715
Other Governmental Funds	46,367	5,778	147,911	200,056
Internal Service Funds	<u>316,611</u>	<u>130,572</u>	-	<u>447,183</u>
Total Governmental Activities	<u>\$594,110</u>	<u>\$1,278,555</u>	<u>\$995,369</u>	<u>\$2,868,034</u>
Business-Type Activities:				
Utility Fund	\$662,171	\$226,363	\$28,406	\$916,940
Transit Fund	<u>92,579</u>	<u>210,824</u>	-	<u>303,403</u>
Total Business-Type Activities	<u>\$754,750</u>	<u>\$437,187</u>	<u>\$28,406</u>	<u>\$1,220,343</u>

NOTE 17 - OTHER POSTEMPLOYMENT BENEFIT (OPEB)

The City adopted the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2018. Following accrual accounting principles, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information to determine future demands on future cash flows.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2018:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$7,100,962
OPEB assets	0
Deferred outflows of resources	0
Deferred inflows of resources	0
OPEB expenses/expenditures	\$279,188

A. Plan/Trust Description

The City of Pullman Firemen Pension Fund is a single-employer defined benefit pension fund established and administered by the City in accordance with RCW 41.16.

Other postemployment benefit plans provide lifetime medical benefits to all firefighters and uniformed police officers who were hired prior to October 1, 1977 (RCW 41.26).

There are 15 inactive retirees receiving benefits from the plans as of December 31, 2018.

The City is a participating employer in the Association of Washington Cities Employee Benefit Trust (Trust), a cost sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

B. Funding Policy

The City is obligated by the Revised Code of Washington to make all required contributions to the plans. The major funding sources for these plans are property taxes, retail sales and use tax, investment earnings, and the State fire insurance premium tax. These benefits are funded on a pay-as-you-go basis through the General Fund. The City does not have a funding policy and there are no assets designated for the benefits. Employees are not required to make contributions to the plans.

The Association of Washington Cities Employee Benefit Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$2,413.52 per month for non-Medicare enrolled retiree-only coverage and \$1,172.20 for Medicare enrolled retiree. Police retirees of the City receiving medical benefits from the Trust contribute \$1,559.26 per month for non-Medicare enrolled retiree-only coverage and \$854.26 for Medicare enrolled retiree. Fire retirees of the City receiving medical benefits from the Trust contribute \$631.64 per month for non-Medicare enrolled retiree-only coverage and \$540.56 for Medicare enrolled retiree.

C. OPEB Cost and Obligation

The City reimbursed a fixed amount of \$134.00 per month in 2018 for a Medicare supplement for 15 retirees eligible for Medicare.

Employer validated claims for medical and hospitalization reimbursements are financed on a pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized when retirees submit claims. The City also carries nursing-home coverage on all active and retired LEOFF 1 employees. During 2018, expenditures of \$254,687 were recognized for postretirement health care.

D. Assumptions & Other Inputs

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 6.8%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8%) or 1-percentage point higher (7.8%) that the current rate.

	1% Decrease (5.8%)	Current Healthcare Cost Trend Rate (6.8%)	1% Increase (7.8%)
Total OPEB Liability	\$6,389,377	\$7,100,962	\$7,927,236

The following presents the total OPEB liability of the City calculated using the discount rate of 3.5%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5%) or 1-percentage point higher (4.5%) that the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	\$7,979,677	\$7,100,962	\$6,361,608

Total OPEB Liability recognizes a change in assumptions due to the amortization being recognized immediately and actuarial cost method based in entry age in 2018 as well as changes in the Healthcare Cost Trend Rate, Discount Rate (from 3.58% to 3.87%), Investment Rate, and Mortality Rate.

Total OPEB Liability at 01/01/2018	\$7,364,427
Service cost	-
Interest	258,537
Changes of benefit terms	-
Changes of assumptions	(234,036)
Estimated Benefit payments	(287,966)
Other changes	-
Total OPEB Liability at 12/31/2018	\$7,100,962

NOTE 18 – HEALTH & WELFARE

The City of Pullman 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, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

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

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

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

NOTE 19 – ENDOWMENT FUNDS

Endowments are provided to the city on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor did not provide specific instructions, RCW 35.21.100 permits the city Council to authorize to expense the net appreciation of the investments of the endowment funds.

The City of Pullman maintains two permanent funds:

The Lawson Gardens Park Endowment Fund was created to care and maintain the Lawson Gardens Park. This fund comprises of corpus assets and assets available for use for the purpose of paying the maintenance and operation costs of Lawson Gardens Park. Resolution R-24-91 was passed by Council establishing the "Lawson Gardens Park Endowment Fund," and providing for its administration and the purposes for which assets and income or the fund may be used. For 2018, net decrease in the fair value of investments were \$19,745 reported as restricted for nonexpendable perpetual care on the statement of net position.

The Cemetery Endowment Care Fund was created to provide ongoing maintenance and improvements of the City operated cemeteries. Revenues are generated from a 30% portion of the cemetery grave sales. Pullman City Code 4.12 governs the use of the fund. There are no appreciable investments in the fund.

Restricted for nonexpendable perpetual care endowments as of December 31, 2018:

Lawson Gardens Park Endowment Fund	\$2,927,195
Cemetery Endowment Care Fund	282,854
Total Restricted Net Position	<u>\$3,210,049</u>

NOTE 20 - OTHER DISCLOSURES

A. Major Receivables

Washington State University is a major user of the City's wastewater treatment facilities. Through an amended interlocal agreement, it reimburses the City for 36.4% of the facility maintenance and operating expenses.

The City has an interlocal agreement with Washington State University to provide fire and emergency medical protective services.

The City has an interlocal agreement with Washington State University to provide public transportation services to staff, students, faculty and retirees.

B. Capital Contributions

Proprietary Activities: The utility fund recorded capital contributions of \$1,406,637 from contributions of water mains, fire hydrants, and sewer main capital assets contributed from developers and customers.

REQUIRED SUPPLEMENTARY INFORMATION
 City of Pullman
 Schedule of Changes in Total OPEB Liability and Related Ratios
 LEOFF 1
 For the year ended June 30, 2018
 Last 10 Fiscal Years*

	2018
Total OPEB liability - beginning	\$ 7,364,427
Service cost	0
Interest	258,537
Changes in benefit terms	0
Differences between expected and actual experience	
Changes of assumptions	(234,036)
Benefit payments	(287,966)
Other changes	
Total OPEB liability - ending	7,100,962
Covered-employee payroll**	0
Total OPEB liability as a % of covered payroll	0.00%

Notes to Schedule:

- * Until a full 10-year trend is compiled, only information for those years available is presented.
- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

City of Pullman
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2018

PERS 1

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u>	0.0718%	0.0745%	0.0709%	0.7270%
<u>Employer's proportionate share of the net pension liability</u>	3,208,310	3,533,043	3,808,738	3,803,671
<u>Covered payroll**</u>	9,715,705	8,711,041	8,092,054	7,690,502
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	33.02%	40.56%	47.07%	49.46%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	63.22%	103.07%	108.96%	96.57%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

City of Pullman
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2018

PERS 2/3

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u>	0.0870%	0.0905%	0.0835%	0.0839%
<u>Employer's proportionate share of the net pension liability</u>	1,485,260	3,085,584	4,132,317	2,942,501
<u>Covered payroll**</u>	9,500,355	8,489,890	7,806,920	7,286,369
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	15.63%	36.34%	52.93%	40.38%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	95.77%	101.49%	131.04%	97.46%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

City of Pullman
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2018

LEOFF 1

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u>	-0.0283%	0.0289%	-0.0271%	-0.0257%
<u>Employer's proportionate share of the net pension liability</u>	(514,332)	(438,750)	(279,383)	(309,826)
<u>State's proportionate share of the net pension liability (asset) associated with the employer</u>	(3,478,927)	(2,967,692)	(1,889,737)	(2,095,653)
TOTAL	(3,993,259)	(3,406,442)	(2,169,120)	(2,405,479)
<u>Covered payroll**</u>	0	334	48,167	75,456
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	0.00%	(131,362.28%)	(580.03%)	(410.06%)
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	144.42%	110.24%%	90.77%	12.14%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5) LEOFF 1 is closed and no longer accepts contributions

City of Pullman
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2018

LEOFF 2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u>	-0.1787%	-0.1866%	-0.1928%	-0.1763%
<u>Employer's proportionate share of the net pension liability</u>	(3,628,588)	(2,589,334)	(1,121,400)	(1,811,981)
<u>State's proportionate share of the net pension liability (asset) associated with the employer</u>	(2,349,443)	(191,211)	(185,249)	(301,145)
TOTAL	(5,978,031)	(2,780,545)	(1,306,649)	(2,113,126)
<u>Covered payroll**</u>	6,075,992	5,828,434	5,733,165	5,166,930
<u>Employer's proportionate share of the net pension liability as a percentage of covered payroll</u>	-59.72%	-47.71%	-22.79%	-40.90%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	118.50%	121.65%	66.38%	533.09%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

City of Pullman
Schedule of Employer Contributions
For the year ended December 31, 2018

PERS 1

	2018	2017	2016	2015
Statutorily or contractually required contributions	504,217	236,964	217,380	334,195
Contributions in relation to the statutorily or contractually required contributions	504,217	236,964	217,380	334,195
Contribution deficiency (excess)	0	0	0	0
Covered payroll	10,004,572	8,954,184	8,326,070	7,982,384
Contributions as a percentage of covered payroll	5.19%	2.65%	2.61%	4.19%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented.

Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8)

City of Pullman
Schedule of Employer Contributions
For the year ended December 31, 2018

PERS 2/3

	2018	2017	2016	2015
Statutorily or contractually required contributions	708,124	328,180	266,067	373,567
Contributions in relation to the statutorily or contractually required contributions	708,124	328,180	266,067	373,567
Contribution deficiency (excess)	0	0	0	0
Covered payroll	9,500,355	8,750,435	8,085,761	7,618,124
Contributions as a percentage of covered payroll	7.45%	3.75%	3.29%	10.50%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented.

Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8)

City of Pullman
Schedule of Employer Contributions
For the year ended December 31, 2018

LEOFF 1

	2018	2017	2016	2015
Statutorily or contractually required contributions	0	0	0	143
Contributions in relation to the statutorily or contractually required contributions	0	0	0	143
Contribution deficiency (excess)	0	0	0	0
Covered payroll	0	0	7,215	79,572
Contributions as a percentage of covered payroll	0%	0%	0.18%	0.52%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented.

Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8)

City of Pullman
Schedule of Employer Contributions
For the year ended December 31, 2018

LEOFF 2

	2018	2017	2016	2015
Statutorily or contractually required contributions	316,675	162,158	145,062	258,400
Contributions in relation to the statutorily or contractually required contributions	316,675	162,158	145,062	258,400
Contribution deficiency (excess)	0	0	0	0
Covered payroll	6,011,020	5,990,324	5,806,229	5,490,731
Contributions as a percentage of covered payroll	5.27%	2.71%	2.50%	5.23%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available has been presented.

Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8)

City of Pullman
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			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
NATIONAL PARK SERVICE, INTERIOR, DEPARTMENT OF THE (via NATIONAL PARK SERVICE, INTERIOR, DEPARTMENT OF THE)	Historic Preservation Fund Grants-In-Aid	15.904	FY18-61018-008	5,250	-	5,250	-	
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF (via OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF)	Violence Against Women Formula Grants	16.588	2017-WF-AX- 0030	6,117	-	6,117	-	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0051-43	-	1,810,388	1,810,388	1,810,388	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0051-44	-	10,632,590	10,632,590	10,632,590	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0051-46	-	137,197	137,197	137,197	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0051-47	-	2,109,984	2,109,984	2,109,984	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0051-48	-	2,868,232	2,868,232	2,868,232	

The accompanying notes are an integral part of this schedule.

City of Pullman
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			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0051-49	-	349,526	349,526	349,526	
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0051-42	-	928,062	928,062	928,062	
Total CFDA 20.106:				-	18,835,979	18,835,979	18,835,979	
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF)	Highway Planning and Construction	20.205	TAP-9938(006)	49,263	-	49,263	-	
Total Highway Planning and Construction Cluster:				49,263	-	49,263	-	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	GCB2621	923,390	-	923,390	-	

The accompanying notes are an integral part of this schedule.

**City of Pullman
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			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF)	State and Community Highway Safety	20.600	Target Zero- Emphasis Patrols	3,682	-	3,682	-	
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF)	State and Community Highway Safety	20.600	Traffic Safety Equipment	5,965	-	5,965	-	
				<u>9,647</u>	<u>-</u>	<u>9,647</u>	<u>-</u>	
				Total Highway Safety Cluster:		9,647		
				993,667	18,835,979	19,829,646	18,835,979	
				Total Federal Awards Expended:		18,835,979	18,835,979	

The accompanying notes are an integral part of this schedule.

City of Pullman
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's financial statements. The City uses the accrual 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/county/district'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 – FEDERAL AVIATION ADMINISTRATION GRANTS

The City is the primary recipient of all Federal Aviation Administration Grants (CFDA 20.106) for its sub recipient the Pullman-Moscow Regional Airport. As the primary recipient, the City monitors the activities of the sub recipient in accordance with OMB Circular A-133. All other compliance requirements and specific grant terms are tested at the sub recipient level and, as such, are not included in the single audit reports of the City.

Note 4 – Indirect Cost Rate

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



City of Pullman

Finance Department

325 SE Paradise Street

Pullman WA 99163

509-338-3206

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Pullman

January 1, 2018 through December 31, 2018

This schedule presents the corrective action planned by the City for findings reported in this report 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).

<p>Finding ref number: 2018-001</p>	<p>Finding caption: The City’s internal controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.</p>
<p>Name, address, and telephone of City contact person: Mike Urban – Director of Finance & Administrative Services 325 S.W. Paradise Street Pullman WA 99163 509-338-3206</p>	
<p>Corrective action the auditee plans to take in response to the finding: <i>The Mayor, City Administrator, City Council Audit Committee, and Director of Finance & Administrative Services for the City of Pullman have reviewed this finding. The City response to the Description of Conditions is as follows:</i></p> <p><i>“City staff responsible for financial statement preparation did not fully understand GAAP accounting and reporting requirements.”</i></p> <ul style="list-style-type: none"> • <i>GAAP Reporting changes frequently. Training opportunities are limited at the state level and more predominantly available nationally - which requires travel, resulting in time away from the office, and expense to the City.</i> • <i>Turnover in the Finance Department has resulted in the top positions with purview over completing the audit report having hire dates of March 2019 (Director of Finance & Administrative Services), October 2017 (Accounting Manager), April</i> 	

2019 (Accountant and Payroll Specialist), and a new position added in February 2020 (Accountant). None of these individuals were previously involved with the City's financial audit preparations.

- *Corrective Actions:*
 - *With the recommendation of the Washington State Auditor, the Pullman City Council has authorized the Finance Department to begin reporting to the State Auditor's Office on Cash Basis instead of GAAP. This will give staff more readily available access to in-state training, reduce redundancies in reporting, reduce the risk of adverse audit determinations, and save the taxpayers money both in producing the audit documents as well as in fees assessed by the State Auditor's Office to perform the yearly review. Users of the audited financials are still assured transparency and will still be provided with the necessary information to make financial decisions.*
 - *Adding the new position in 2/2020 is the first of two new hires to be requested in the Finance Department – once revenues stabilize in a post-COVID scenario. These positions will help manage a workload that has increased 180.7% since the last time staffing was increased fourteen years ago and be integral to assure timely and accurate reporting.*
 - *Requests to allocate budget and time dedicated for staff to pursue necessary training to receive important financial updates, improve skills, and learn best practices to create an efficient and effective Finance Department is included in the Department's forward work plan.*

“The City did not have an effective review process to detect and correct financial statement errors before submitting the annual financial report for audit.”

- *Based on the information provided above and the timing of audit, the Finance Department concurs with this condition.*
- *Corrective Actions:*
 - *In addition to the corrective actions previously mentioned, the change to Cash Basis reporting has caused an entire rewrite to the notes section of the audit submission. This has been performed using the instructions and templates provided by the State Auditor's Office. These notes are reviewed by multiple individuals before submission.*
 - *Finance Department turnover has stabilized with new leadership. Moving past the onboarding transitional period has created economies of scale to work flow thus allowing additional time for the review process.*
 - *Switching from GAAP reporting to Cash Basis places more emphasis on State Auditor software reporting schedules uploads versus internally created reports. This will allow staff additional time to assure uploads and created reports are*

concurrent.

“City staff did not sufficiently research Government Accounting Standards Board Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pension, to ensure proper implementation and accurate reporting of the liability.”

- *The Director of Finance & Administrative Services takes full responsibility for not researching the change from GASB 45 to GASB 75, which was a change beginning in the 2018 reporting period. The Director should not have relied solely on the communication from the State Auditor’s Local Government Support Team May 4, 2019 encouraging him to “. . . use the 2017 report as a guide – not much has changed since last year so it would be just a matter of updating data to 2018 . . .” Additional research should have been performed to determine whether or not this statement was accurate.*
- *Corrective Actions:*
 - *In addition to the corrections previously mentioned, the Finance Department has placed an emphasis on gathering information on changes in reporting and verifying information from official sources to assure reporting items are up to date, comprehensive, and accurate.*
 - *Staff has become familiar with GASB 75 reporting requirements once this information had been brought to the department’s attention.*

Although the Cause of Condition is a direct result of the Description of Condition, the Effects of Condition are important to address for the user of this report and assure that all cash is accounted for and present:

- *The new 2018 Bond Debt Fund, when aggregated with the existing utility revenue bond funds, caused the category to surpass the major fund reporting threshold criteria beginning in this year. These bond dollars were reported in the submission – just not within their own separate category as prescribed. This issue has been addressed, and as completion of work around 2018 Bond projects comes to an end, this fund will revert back to the previous reporting method.*
- *OPEB Liabilities were understated due to not replacing GASB 45 activities with GASB 75 – which was new for 2018 GAAP reporting. It is the responsibility of the Director of Finance & Administrative Services to independently verify GASB reporting requirements, notwithstanding the communication from the State Auditor’s Local Government Support Team dated May 4, 2019. Although the liability was misstated, it had no effect on actual cash operations.*
- *Understated capital contributions in the Utility Fund are a product of donated infrastructure (i.e. street work, placement of utilities, etc.) to the City of Pullman by developers resulting from increased construction. Since the developer performs all*

work associated with these expenditures and it occurs outside the Finance Department cash handling process, no cash changes hands to capture in the City's general ledger. The adjusting journal entry to capture this activity in the general ledger was not concurrent with the original audit report submission but has since been corrected.

- *Finance Department staff has reclassified the \$19,567,252 as per the finding to reflect transportation expenditures instead of government expenditures. These dollars represent Federal Aviation Administration Grant pass-through funds for the Pullman-Moscow Regional Airport for which the City of Pullman is both the receiving agency and the contracted fiscal agent for the separately audited entity. These grant dollars were received by the City and then passed through to the Airport for its activities without intervening use. Due to the unique nature of the operating agreement of the Airport to encompass the needs of multiple cities, multiple counties, and multiple states, interpreting GASB 24 - which prescribes the treatment of pass-through grants to be recognized as revenue and expenditure to the granting agency – requires careful consideration in its implementation. The original interpretation of the City was that these funds did not increase transportation delivery nor infrastructure of the City of Pullman's existing operations; specifically, the City of Pullman does operate a Transit system which is properly classified as a transportation expenditure. In a letter dated August 21, 2020, the FAA raised additional concerns with the treatment of pass-through grants that benefit the Airport as transportation expenditures of the City in the manner prescribed by the Washington State Auditor's Office. The City has considered the benefit of additional language to the operating agreement that would clarify the current administrative and financial involvement of the City with the Airport which would help support the original interpretation utilized by the Finance Department. However, the tremendous success of the existing operating agreement with all of the airport partners takes precedence over such a change, and the City will simply acquiesce to the State Auditor's recommendation and properly alert the user of this audit report as to the nuances of this relationship in future notes.*
- *The misclassification of fund balances did not change the overall net position of the City of Pullman. Balances remained within the proper designated funds for their proper use. Staff reviewed codified actions and legal restrictions associated with funds and for a better understanding as how to classify according to prescribed definitions.*
- *The unspent portion of bond proceeds required an adjusting journal entry at the end of 2018 for the 2018 Bond Fund. Although there were several factors that led to this omission, additional internal controls have been put in place to correct this activity going forward.*

- *Utility Bond Fund proceeds were properly received by the City and deposited into the proper accounts. The subsequent journal entry to recognize this activity was not completed correctly at time of receipt and this error was missed by the current staff during review. Staffing changes along with modifications to internal controls should prevent this type of error in the future.*
- *Other uncorrected errors stated are not material and do not mislead the user of these audited financial statements. Correcting these non-material items is a labor-intensive activity both to the City as well as to the State Auditor's Office resulting in increased costs to the taxpayers without any substantial benefit. The audited financials reflect that all funds are accounted for & present.*

The City of Pullman takes this finding very seriously, and corrective action has already been taken including adopting language and reporting templates provided directly by the State Auditor's Office. Additional training – both in course accessibility and staff availability, decreased department turnover, staffing increases, additional experience & knowledge gained, and commitment to improving internal controls as well as operational functions will alleviate adverse findings going forward.

Anticipated date to complete the corrective action: Corrective actions have been made.

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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