



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Pacific

For the period January 1, 2018 through December 31, 2019

Published April 12, 2021

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

April 12, 2021

Council
City of Pacific
Pacific, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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 Pacific January 1, 2018 through December 31, 2019

Council
City of Pacific
Pacific, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Pacific, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated April 6, 2021.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 6 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 6.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

April 6, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Pacific January 1, 2018 through December 31, 2019

Council
City of Pacific
Pacific, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Pacific, for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Pacific, and its changes in cash and investments, for the years ended December 31, 2018 and 2019, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Pacific, as of December 31, 2018 and 2019, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis

As discussed in Note 6 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 6. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2021 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, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

April 6, 2021

FINANCIAL SECTION

City of Pacific January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Fund Resources and Uses Arising from Cash Transactions – 2018
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019
Schedule of Liabilities – 2018

City of Pacific
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	001 General Fund	101 Street	107 Tourism
Beginning Cash and Investments					
30810	Reserved	1,669,542	106,624	30,080	161,430
30880	Unreserved	9,366,520	3,101,804	120,320	-
388 / 588	Net Adjustments	11	11	-	-
Revenues					
310	Taxes	4,039,381	3,746,106	-	21,763
320	Licenses and Permits	395,367	370,242	25,125	-
330	Intergovernmental Revenues	1,273,322	133,292	155,360	-
340	Charges for Goods and Services	6,311,585	183,208	-	-
350	Fines and Penalties	164,886	102,655	-	-
360	Miscellaneous Revenues	1,845,495	110,326	3,640	1,346
Total Revenues:		14,030,036	4,645,829	184,125	23,109
Expenditures					
510	General Government	1,168,511	1,112,011	-	-
520	Public Safety	2,580,814	2,564,134	-	-
530	Utilities	3,968,109	26,561	-	-
540	Transportation	362,823	-	361,602	-
550	Natural and Economic Environment	413,784	410,727	-	3,057
560	Social Services	282,282	266,397	-	-
570	Culture and Recreation	451,120	445,877	-	-
Total Expenditures:		9,227,443	4,825,707	361,602	3,057
Excess (Deficiency) Revenues over Expenditures:		4,802,593	(179,878)	(177,477)	20,052
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	4,774,139	-	-	-
397	Transfers-In	2,515,077	368,505	361,250	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	172,703	172,703	-	-
381, 382, 395, 398	Other Resources	391,234	5,320	-	-
Total Other Increases in Fund Resources:		7,853,153	546,528	361,250	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,727,277	71,944	-	-
591-593, 599	Debt Service	6,521,248	-	-	-
597	Transfers-Out	1,815,077	243,575	29,103	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	193,353	193,353	-	-
581, 582	Other Uses	950,000	-	-	-
Total Other Decreases in Fund Resources:		13,206,955	508,872	29,103	-
Increase (Decrease) in Cash and Investments:		(551,209)	(142,222)	154,670	20,052
Ending Cash and Investments					
5081000	Reserved	4,525,809	633,477	-	181,481
5088000	Unreserved	5,959,062	2,432,747	305,067	-
Total Ending Cash and Investments		10,484,871	3,066,224	305,067	181,481

The accompanying notes are an integral part of this statement.

City of Pacific
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		209 LID 6 Redemption	210 LID 6 Reserve	300 Municipal Capital Improvements	301 Roads Capital Improvements
Beginning Cash and Investments					
30810	Reserved	105,331	1,000	618,947	80,924
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	129,121	129,121
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	134,480	460,719
340	Charges for Goods and Services	-	-	-	186,085
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,415,740	13	11,907	4,294
Total Revenues:		1,415,740	13	275,508	780,219
Expenditures					
510	General Government	56,500	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	214
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	15,885	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		56,500	-	15,885	214
Excess (Deficiency) Revenues over Expenditures:		1,359,240	13	259,623	780,005
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	4,296,725	477,414	-	-
397	Transfers-In	115,000	-	-	325,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		4,411,725	477,414	-	325,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	217,150	1,109,559
591-593, 599	Debt Service	5,875,070	-	-	9,882
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		5,875,070	-	217,150	1,119,441
Increase (Decrease) in Cash and Investments:		(104,105)	477,427	42,473	(14,436)
Ending Cash and Investments					
5081000	Reserved	1,226	478,427	661,422	66,489
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		1,226	478,427	661,422	66,489

City of Pacific
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		305 Parks Capital Improvement	308 Valentine Road Project	309 West Valley	310 Stewart/Thornton Ave Rd Project
Beginning Cash and Investments					
30810	Reserved	101,180	-	-	-
30880	Unreserved	-	10,775	217,982	456,226
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	13,270	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	23,849	10,800	-	233,413
340	Charges for Goods and Services	12,013	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,214	167	3,569	8,972
Total Revenues:		51,346	10,967	3,569	242,385
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	5,243	-	-	-
Total Expenditures:		5,243	-	-	-
Excess (Deficiency) Revenues over Expenditures:		46,103	10,967	3,569	242,385
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	3,575	800,000	-	150,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		3,575	800,000	-	150,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	37,485	556,056	51,829	291,944
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	100,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	250,000	-	-
Total Other Decreases in Fund Resources:		37,485	806,056	51,829	391,944
Increase (Decrease) in Cash and Investments:		12,193	4,911	(48,260)	441
Ending Cash and Investments					
5081000	Reserved	113,372	-	-	-
5088000	Unreserved	-	15,686	169,722	456,668
Total Ending Cash and Investments		113,372	15,686	169,722	456,668

The accompanying notes are an integral part of this statement.

City of Pacific
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		333 Fire Capital Improvement	401 Water	402 Sewer	409 Storm
Beginning Cash and Investments					
30810	Reserved	258,305	205,721	-	-
30880	Unreserved	-	3,806,789	1,056,575	596,049
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	121,409
340	Charges for Goods and Services	19,387	1,882,601	2,867,353	1,160,938
350	Fines and Penalties	-	38,540	13,992	9,699
360	Miscellaneous Revenues	4,582	250,051	17,530	11,144
Total Revenues:		23,969	2,171,192	2,898,875	1,303,190
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	16,680	-	-	-
530	Utilities	-	1,014,743	2,387,120	539,685
540	Transportation	-	-	-	1,007
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		16,680	1,014,743	2,387,120	540,692
Excess (Deficiency) Revenues over Expenditures:		7,289	1,156,449	511,755	762,498
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	391,747	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	250,000	-	135,914
Total Other Increases in Fund Resources:		-	641,747	-	135,914
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	865,539	205,361	320,410
591-593, 599	Debt Service	-	621,576	-	14,720
597	Transfers-Out	-	247,582	549,724	645,093
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	700,000	-	-
Total Other Decreases in Fund Resources:		-	2,434,697	755,085	980,223
Increase (Decrease) in Cash and Investments:		7,289	(636,501)	(243,330)	(81,811)
Ending Cash and Investments					
5081000	Reserved	265,593	1,561,335	377,522	185,465
5088000	Unreserved	-	1,814,673	435,724	328,775
Total Ending Cash and Investments		265,593	3,376,008	813,246	514,240

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	001 General Fund	101 Street	107 Tourism
Beginning Cash and Investments					
30810	Reserved	4,575,282	84,594	-	135,709
30880	Unreserved	6,162,871	2,944,573	122,533	-
388 / 588	Net Adjustments	4,882	2,526	-	-
Revenues					
310	Taxes	3,773,570	3,505,784	-	23,131
320	Licenses and Permits	496,442	478,067	18,375	-
330	Intergovernmental Revenues	1,584,216	172,988	161,005	-
340	Charges for Goods and Services	6,317,774	237,001	-	-
350	Fines and Penalties	232,211	140,326	-	-
360	Miscellaneous Revenues	804,598	102,325	1,820	2,591
Total Revenues:		13,208,811	4,636,491	181,200	25,722
Expenditures					
510	General Government	1,119,087	1,107,084	-	-
520	Public Safety	2,531,622	2,531,622	-	-
530	Utilities	3,857,911	24,639	-	-
540	Transportation	367,898	-	366,467	-
550	Natural and Economic Environment	360,031	360,031	-	-
560	Social Services	231,490	231,490	-	-
570	Culture and Recreation	397,060	391,355	-	-
Total Expenditures:		8,865,099	4,646,221	366,467	-
Excess (Deficiency) Revenues over Expenditures:		4,343,712	(9,730)	(185,267)	25,722
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	5,764,351	-	-	-
397	Transfers-In	2,312,438	325,853	255,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	281,885	281,885	-	-
381, 382, 395, 398	Other Resources	163,262	-	-	-
Total Other Increases in Fund Resources:		8,521,936	607,738	255,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,157,547	131,314	-	-
591-593, 599	Debt Service	5,897,673	-	-	-
597	Transfers-Out	2,312,438	85,000	41,864	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	204,955	204,955	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		12,572,613	421,269	41,864	-
Increase (Decrease) in Cash and Investments:		293,035	176,739	27,869	25,722
Ending Cash and Investments					
5081000	Reserved	2,155,496	622,658	-	161,430
5088000	Unreserved	8,880,567	2,585,771	150,400	-
Total Ending Cash and Investments		11,036,063	3,208,429	150,400	161,430

The accompanying notes are an integral part of this statement.

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

		209 LID 6 Redemption	210 LID 6 Reserve	300 Municipal Capital Improvements	301 Roads Capital Improvements
Beginning Cash and Investments					
30810	Reserved	402	1,000	566,906	268,508
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	-	1,850
Revenues					
310	Taxes	-	-	116,171	116,171
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	306,630
340	Charges for Goods and Services	-	-	-	80,300
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	9,423	3,423
Total Revenues:		-	-	125,594	506,524
Expenditures					
510	General Government	12,003	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		12,003	-	-	-
Excess (Deficiency) Revenues over Expenditures:		(12,003)	-	125,594	506,524
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	5,700,000	-	-	-
397	Transfers-In	-	-	253,585	325,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		5,700,000	-	253,585	325,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	327,137	945,209
591-593, 599	Debt Service	5,193,068	-	-	75,750
597	Transfers-Out	390,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		5,583,068	-	327,137	1,020,959
Increase (Decrease) in Cash and Investments:		104,929	-	52,042	(189,435)
Ending Cash and Investments					
5081000	Reserved	105,331	1,000	618,947	80,924
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		105,331	1,000	618,947	80,924

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

		305 Parks Capital Improvement	308 Valentine Road Project	309 West Valley	310 Stewart/Thornton Ave Rd Project
Beginning Cash and Investments					
30810	Reserved	138,262	-	-	-
30880	Unreserved	-	774	153,873	50,966
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	12,313	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	195,070	-	6,174	609,660
340	Charges for Goods and Services	7,895	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,689	34	3,569	5,886
Total Revenues:		217,967	34	9,743	615,546
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	5,705	-	-	-
Total Expenditures:		5,705	-	-	-
Excess (Deficiency) Revenues over Expenditures:		212,262	34	9,743	615,546
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	5,000	420,000	75,000	128,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	163,262
Total Other Increases in Fund Resources:		5,000	420,000	75,000	291,262
Other Decreases in Fund Resources					
594-595	Capital Expenditures	254,343	410,033	20,634	501,549
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		254,343	410,033	20,634	501,549
Increase (Decrease) in Cash and Investments:		(37,081)	10,001	64,109	405,259
Ending Cash and Investments					
5081000	Reserved	101,180	-	-	-
5088000	Unreserved	-	10,775	217,982	456,226
Total Ending Cash and Investments		101,180	10,775	217,982	456,226

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

		333 Fire Capital Improvement	401 Water	402 Sewer	409 Storm
Beginning Cash and Investments					
30810	Reserved	102,401	3,277,500	-	-
30880	Unreserved	-	1,624,119	543,293	722,740
388 / 588	Net Adjustments	-	6	500	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	132,689
340	Charges for Goods and Services	153,465	1,822,581	2,855,192	1,161,340
350	Fines and Penalties	-	51,018	28,860	12,007
360	Miscellaneous Revenues	2,439	639,618	19,082	11,699
Total Revenues:		155,904	2,513,217	2,903,134	1,317,735
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	1,003,057	2,308,089	522,126
540	Transportation	-	-	-	1,431
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	1,003,057	2,308,089	523,557
Excess (Deficiency) Revenues over Expenditures:		155,904	1,510,160	595,045	794,178
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	64,351	-	-
397	Transfers-In	-	125,000	400,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	189,351	400,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	1,171,144	80,722	315,462
591-593, 599	Debt Service	-	623,948	-	4,907
597	Transfers-Out	-	793,531	401,541	600,502
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	2,588,623	482,263	920,871
Increase (Decrease) in Cash and Investments:		155,904	(889,112)	512,782	(126,693)
Ending Cash and Investments					
5081000	Reserved	258,305	205,721	-	-
5088000	Unreserved	-	3,806,789	1,056,575	596,049
Total Ending Cash and Investments		258,305	4,012,510	1,056,575	596,049

The accompanying notes are an integral part of this statement.

City of Pacific
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Custodial
308	Beginning Cash and Investments	83,644
388 & 588	Net Adjustments	-
310-390	Additions	134,144
510-590	Deductions	74,355
	Net Increase (Decrease) in Cash and Investments:	59,789
508	Ending Cash and Investments	143,432

The accompanying notes are an integral part of this statement.

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

		Custodial
308	Beginning Cash and Investments	84,191
388 & 588	Net Adjustments	99
310-390	Additions	149,820
510-590	Deductions	150,466
	Net Increase (Decrease) in Cash and Investments:	(646)
508	Ending Cash and Investments	83,644

The accompanying notes are an integral part of this statement.

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

Note 1 - Summary of Significant Accounting Policies

The City of Pacific was incorporated on 1909 and operates under the laws of the state of Washington applicable to a Code City. The City of Pacific is a general purpose local government and provides Water, Sewer, Law Enforcement, Stormwater Facilities, Community Development and Senior and Youth Services.

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

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

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

General Fund – includes:	Funds 001, 097, 098, 099, 800
Special Revenue Funds	Funds 101, 107
Debt Service Funds	Funds 209, 210
Capital project Funds	Funds 300, 301, 305, 308, 309, 310, 333
Water Utility Funds	Funds 401, 404, 406, 411, 499
Sewer Utility Funds	Funds 402, 408, 499
Garbage Utility Fund	Fund 403
Storm Water Utility Fund	Funds 409, 410, 499
Fiduciary Funds	Funds 601, 630, 640

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as a custodian on behalf of others.

Investment Trust Funds

These funds are used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in trust.

Custodial Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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

C. Cash and Investments

See Note 4 - Deposits and Investments.

D. Capital Assets

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

E. Compensated Absences

Vacation leave may be accumulated up to twice the employee's allowed vacation earnings per year of service and is payable upon separation or retirement. Vacation hours earned after maximum accumulation shall be forfeited.

Sick leave may be accumulated at a rate of 10 hours per month for Uniform employees and 8 hours per month for all other employees with a maximum accumulation of 960 hours. Upon retirement, employees will receive payment for unused sick leave at a rate equal to 1/3 of the sick leave accumulated. Payments are recognized as expenditures when paid.

Total cost for compensated absences as of 12/31/19: \$402,230.26

F. Long-Term Debt

See Note 3 - Debt Service Requirements.

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Council. When expenditures that meet restrictions are incurred, the City of Pacific intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of \$2,569,794

Fund Name	Amount Reserved	Reason for Restriction
001: General Fund	\$106,624	Seizure funds
099: General Fund Cumulative Reserve	\$525,126	
107: Tourism	\$168,670	Special revenue
209: LID 6 Redemption	\$1,226	Valentine project - LID
210: LID 6 Reserve	\$478,427	LID Reserve
300: Municipal Capital Improvements	\$661,422	For special Capital projects
301: Road Capital Improvements	\$66,489	For special Road projects
305: Parks Capital Improvements	\$113,372	For special Parks projects
333: Fire Capital Improvements	\$265,593	For special Fire Capital projects
404: Water & Sewer Revenue Bond Redemption Fund	\$182,845	Redemption bond pymt
	\$2,569,794	

Note 2 – Budget Compliance

The City of Pacific adopts annual appropriated budgets for the general, special revenue, capital projects and enterprise funds. These budgets are appropriated at the fund level except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the legally adopted budgets were as follow:

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance	Explanation
GENERAL FUND				
001 - General Fund	\$ 4,872,002	\$ 4,859,233	\$ 12,769	<i>Budgeted more than was spent</i>
097 - Pacific Municipal Court	\$ 507,197	\$ 502,298	\$ 4,900	<i>Budgeted more than was spent</i>
098 - General Fund Equipment Reserve	\$ 63,420	\$ 62,800	\$ 620	<i>Budgeted more than was spent</i>
099 - General Fund Cumulative Reserv	\$ -	\$ -	\$ -	
800 - Payroll EE Benefit Clearing	\$ -	\$ 5,754	\$ (5,754)	
TOTAL GENERAL FUND	\$ 5,442,619	\$ 5,430,084	\$ 12,534	
101 - Street	\$ 418,913	\$ 417,874	\$ 1,039	<i>Budgeted more than was spent</i>
107 - Tourism	\$ 3,500	\$ 3,057	\$ 443	<i>Budgeted more than was spent</i>
209 - LID 6 Redemption	\$ 5,949,572	\$ 5,949,572	\$ (0)	
210 - LID 6 Reserve	\$ -	\$ -	\$ -	
300 - Municipal Capital Improvements	\$ 283,033	\$ 233,033	\$ 50,000	<i>Budgeted more than was spent</i>
301 - Roads Capital Improvements	\$ 1,209,192	\$ 1,119,654	\$ 89,538	<i>Budgeted more than was spent</i>
305 - Parks Capital Improvement	\$ 45,000	\$ 42,728	\$ 2,272	<i>Budgeted more than was spent</i>
308 - Valentine Road Project	\$ 809,531	\$ 806,056	\$ 3,475	<i>Budgeted more than was spent</i>
309 - West Valley	\$ 73,614	\$ 51,829	\$ 21,785	<i>Budgeted more than was spent</i>
310 - Stewart/Thornton Ave Rd Projec	\$ 400,000	\$ 391,944	\$ 8,057	<i>Budgeted more than was spent</i>
333 - Fire Capital Improvement	\$ 21,064	\$ 16,681	\$ 4,383	<i>Budgeted more than was spent</i>
WATER				
401 - Water	\$ 1,833,659	\$ 1,832,037	\$ 1,622	<i>Budgeted more than was spent</i>
406 - Water Capital Improvement	\$ 1,500,005	\$ 1,426,930	\$ 73,074	<i>Budgeted more than was spent</i>
411 - Pierce County Water Area	\$ 85,500	\$ 85,500	\$ -	n/a
499 - Utilities Equipment Reserve	\$ 300,000	\$ 238,609	\$ 61,391	<i>Budgeted more than was spent</i>
TOTAL WATER	\$ 3,719,163	\$ 3,583,076	\$ 136,087	
SEWER				
402 - Sewer	\$ 2,917,365	\$ 2,908,602	\$ 8,763	<i>Budgeted more than was spent</i>
408 - Sewer Cumulative Fund	\$ 377,681	\$ 330,362	\$ 47,319	<i>Budgeted more than was spent</i>
TOTAL SEWER	\$ 3,295,046	\$ 3,238,964	\$ 56,082	
404 - Water & Sewer Revenue Bond Redemption Fund	\$ 753,728	\$ 553,728	\$ 200,000	<i>Budgeted more than was spent</i>
STORM				
409 - Stormwater	\$ 1,330,613	\$ 1,283,543	\$ 47,070	<i>Budgeted more than was spent</i>
410 - Stormwater Facility Fund	\$ 636,727	\$ 570,410	\$ 66,317	<i>Budgeted more than was spent</i>
TOTAL STORM	\$ 1,967,340	\$ 1,853,953	\$ 113,387	
690 - Custodial Funds				
601 - Customer Deposits	\$ -	\$ -	\$ -	
630 - Developer Deposit	\$ 30,000	\$ 23,462	\$ 6,538	<i>Budgeted more than was spent</i>
640 - Algona Court	\$ 54,970	\$ 50,893	\$ 4,078	<i>Budgeted more than was spent</i>
TOTAL CUSTODIAL FUNDS	\$ 84,970	\$ 74,355	\$ 10,615	

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); 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 of Pacific's legislative body.

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

Note 3 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Pacific and summarizes the City of Pacific's debt transactions for year ended December 31, 2019.

The debt service requirements for future payment requirements, including interest, are as follows:

Year	Principal	Interest	Total Debt Service
2020	\$ 876,965	\$ 238,971	\$ 1,115,936
2021	\$ 886,868	\$ 235,057	\$ 1,018,948
2022	\$ 864,548	\$ 214,268	\$ 1,078,816
2023	\$ 733,761	\$ 193,878	\$ 927,639
2024	\$ 739,761	\$ 175,363	\$ 915,124
2025-2030	\$ 4,577,563	\$ 652,995	\$ 5,230,558
2031-2032	\$ 1,583,521	\$ 60,777	\$ 1,644,298
<i>Totals</i>	\$ 10,262,986.95	\$ 1,771,310	\$ 11,931,319

Note 4 – Deposits and Investments

Investments are reported at original cost. Investments by type at December 31, 2019 are as follows:

Type of Deposit or Investment	City's own deposits & investments	Deposits & investments held by the city as an agent for other local governments, individuals, or private organizations.	Total
12/31/19 Bank Balances	\$669,175.00	\$143,431.78	\$812,606.78
LGIP	\$2,159,072.15	\$ -	\$2,159,072.15
CD's	\$33,955.11	\$ -	\$33,955.11
Bonds	\$5,992,797.77	\$ -	\$5,992,797.77
Columbia Bank Investment Pool	\$1,629,869.93	\$ -	\$1,629,869.93
<i>Totals</i>	\$10,484,869.96	\$143,431.78	\$10,628,301.74

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments in the State Local Government Investment Pool (LGIP)

The City of Pacific is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with [Chapter 43.250 RCW](#). Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The city's deposits and certificates of deposit are mostly 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).

All investments are insured, registered or held by the city or its agent in the government's name.

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2019:

From	To	Beginning Balance	Additions	Reductions	Ending Balance
406 - Water Capital Improvement Fund	308 - Valentine Road Project	250,000		250,000	-
406 - Water Capital Improvement Fund	308 - Valentine Road Project	700,000			700,000
		950,000	-	250,000	700,000

Note 6 - Other Disclosures

Title for Disclosure	Details for Disclosure
COVID-19 Subsequent Event	In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. Projecting a 5-15% loss in major revenue sources in the General Fund and using the reduction of discretionary spending which includes travel and training. The strategic use of reserves may be necessary to balance the General Fund. The length of time these measures will be in place, and the full extent of the financial impact is unknown at this time.

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

Note 7 – Pension Plans

A. State Sponsored Pension Plans

Substantially all city's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. Substantially all City of Pacific's full-time and qualifying employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement System.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

At June 30, 2019 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

Plan Type	Employer Contributions	Plan Liability / Asset	Allocation Percentage	NPL	NPA
PERS 1	\$6,156	\$3,845,355,000	0.00085857%	\$33,015	
PERS 1 UAAL	\$95,804	\$3,845,355,000	0.01336105%	\$513,780	
PERS 2/3	\$140,969	\$971,340,000	0.01726000%	\$167,653	
LEOFF 2	\$58,707	\$(2,316,693,000)	0.03184166%		\$(737,674)
			<i>Totals</i>	\$714,448	\$(737,674)

LEOFF Plan 2

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

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

Note 8 - Property Tax

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

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

The city's regular levy for the year 2019 was \$1.21419 per \$1,000 on an assessed valuation of \$798,216,756 for a total regular levy of \$969,187.

Levy Type	Per \$1000	Assessed Valuation	Amount
Regular	1.21419	798,216,756	969,187

Note 9 – Risk Management

Type of Risk	Self -insured (Y/N)
Property & Liability	N
Health & Welfare	N
Unemployment Compensation (ESD)	N
Workers Compensation (L&I)	N
Other	N

The City of Pacific is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2019, 100 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

CITY OF PACIFIC
Notes to the Financial Statements
For the year ended December 31, 2019

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Great American for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2019, AWC RMSA carried a retention of \$200,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

City of Pacific
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 - Summary of Significant Accounting Policies

The City of Pacific was incorporated in 1909 and operates under the laws of the state of Washington applicable to a code city. The City of Pacific is a general purpose local government and provides water, sewer, law enforcement, storm water facilities, and community development, and senior and youth services.

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

A. Fund Accounting

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

General Fund – includes:	Funds 001, 097, 098, 099, 800
Special Revenue Funds	Funds 101, 107
Debt Service Funds	Funds 209, 210
Capital project Funds	Funds 300, 301, 305, 308, 309, 310, 333
Water Utility Funds	Funds 401, 404, 406, 411, 499
Sewer Utility Funds	Funds 402, 408, 499
Garbage Utility Fund	Fund 403
Storm Water Utility Fund	Funds 409, 410, 499
Fiduciary Funds	Funds 601, 630, 640

The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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

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

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

C. Cash and Investments

See Note 3: Deposits and Investments

D. Capital Assets

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

E. Compensated Absences

Vacation leave may be accumulated up to twice the employee's allowed vacation earnings per year of service and is payable upon separation or retirement. Vacation hours earned after maximum accumulation shall be forfeited.

Sick leave may be accumulated at a rate of 8 hours a month with a maximum accumulation of 960 hours. Upon retirement non police staff employees will receive payment for unused sick leave at a rate equal to $\frac{1}{4}$ of the sick leave accumulated, whereas police staff employees receive $\frac{1}{3}$ of the sick leave accumulated. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 4: *Debt Service Requirements*.

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Council. When expenditures that meet restrictions are incurred, the city intends to use reserved resources first before using unreserved amounts.

Fund Name	Amount Reserved	Reason for Restriction
001 - General Fund	106,624	Seizure Funds
107 - Tourism Fund	148,619	Special Revenue
209 - LID 6 Redemption	105,331	Valentine Project - LID
210 - LID 6 Reserve	1,000	LID reserve
300 - Municipal Capital Improvement Fund	618,947	For special Capital Projects
301 - Road Capital Improvement Fund	80,924	For Special road projects
305 - Parks Capital Improvement Fund	101,180	For Special park projects
333 - Fire Capital Improvement Fund	258,305	For Special fire capital projects
404 - Water/Sewer Bond Redemption Fund	205,721	Redemption bond payments

Note 2 – Budget Compliance

The City of Pacific adopts annual appropriated budgets for the general, special revenue, capital project, and enterprises funds. These budgets are appropriated at the fund level, except the general (current expense) fund, where budget is adopted at the department level). The budget constitutes the legal

authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Legislative Department	26,450.00	21,368.97	5,081.03
Executive Department	22,646.50	17,704.72	4,941.78
Finance Department	193,428.95	183,440.46	9,988.49
Legal Services	250,580.10	249,518.98	1,061.12
Employee Benefit Program	2,080.00	1893.64	186.36
Centralized Services Department	242,454.31	200,464.93	41,989.38
Police Department	2,146,834.81	2,029,707.98	117,126.83
Detention/Correction	231,800.00	227,506.27	4,293.73
Protective Inspections Department	57,000.00	13,074.31	43,925.69
Disaster Services Department	44,250.00	23,382.20	20,867.80
Dispatch Services	240,000.00	237,951.40	2,048.60
Garbage & Solid Waste	34,950.00	24,638.68	10,311.32
Conservation	11,000.00	10,553.05	446.95
Environmental Services	41,000.00	35,366.23	5,633.77
Planning & Community Dev.	373,495.00	301,299.21	72,195.79
Senior Center	279,221.94	231,494.29	47,727.65
Youth Center	201,278.96	165,657.62	35,621.34
Cultural & Recreational	153,000.00	31,710.80	121,289.20
Park Facilities	283,380.00	193,986.13	89,393.87
Non Expenditures	61,600.00	46,127.69	15,472.31
Debt Service – Principal	0	0	0
Capital Expenditures	71,942.54	680.00	71,262.54
Interfund Transfers	195,000.00	195,000.00	0
Total General Fund	5,163,393.11	4,442,527.56	720,865.55
Court Fund	697,087.79	606,498.52	90,589.27
General Equipment Reserve	493,500.00	130,351.21	363,148.79
General Cumulative Reserve	500,000.00	0	500,000.00
Street Fund	597,800.00	428,751.65	169,048.35
Tourism Fund	168,100.00	12,811.81	155,288.19
LID 6 Redemption Fund	5,998,925.00	5,595,070.54	403,854.46
LID 6 Reserve Fund	1,000.00	1,000.00	0
Municipal Capital	943,800.00	327,137.15	616,662.85
Roads Capital Improvements	1,499,200.00	1,019,108.24	480,091.76
Parks Capital Improvements	448,980.00	260,048.63	188,931.37
Valentine Road Projects	499,680.00	410,032.98	89,647.02

West Valley Road Project	296,700.00	20,633.81	276,066.19
Stewart/Thornton Ave Projects	995,300.00	501,548.48	493,751.52
Fire Capital Improvements	5,000.00	0	5,000.00
Water O & M	2,194,000.00	1,521,213.08	672,786.92
Sewer O & M	2,990,842.35	2,610,166.45	380,675.90
Garbage	0	0	0
Water Revenue Bond	3,294,000.00	3,071,778.83	222,221.17
Water Capital Improvements	3,595,000.00	1,300,733.14	2,294,266.86
Sewer Cumulative	980,348.00	224,141.85	756,206.15
Stormwater	1,492,507.00	1,062,751.60	429,755.40
Stormwater Facility	948,120.00	677,461.65	270,658.35
Pierce County/Webstone	297,000.00	85,343.37	211,656.63
Utilities Equipment Reserve	834,153.16	131,231.45	702,921.71
Developer Deposit	98,388.90	20,150.00	78,238.90
Algona Court	174,946.38	130,217.48	44,728.90

Budgeted amounts are authorized to be transferred 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's legislative body.

The variances are due to spending less than what was budgeted.

Note 3 – Deposits and Investments

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2018 are as follows:

Type of Investment	City's own Investments	Investments held by City as an agent for other local governments, individuals or private organizations	Total
LGIP	2,109,899.20		2,109,899.20
CD	33,955.11		33,955.11
Columbia Bank Investment Pool	2,000,000.00		2,000,000.00
Bond Investments	6,995,027.77		6,995,027.77
TOTALS	11,138,882.08		11,138,882.08

Note 4: Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Pacific and summarizes the City's debt transactions for year ended December 31, 2018. The debt service requirements for future payment requirements, including interest, are as follows:

	Principal	Interest	Total
2019	\$507,884	\$124,650	\$632,534
2020	\$514,248	\$114,947	\$629,195
2021	\$519,626	\$105,054	\$624,680
2022	\$497,307	\$95,098	592,405
2023 - 2027	\$1,895,595	\$349,105	\$2,244,700
2028 - 2032	\$2,066,595	\$138,059	\$2,204,654
TOTALS	\$11,671,619	\$1,159,460	\$12,831,079

Note 5 - Property Tax

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

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

The City's regular levy for the year 2018 was \$1.31739 per \$1,000 on an assessed valuation of \$724,040,048 for a total regular levy of \$953,841.

Note 6- Interfund Loans

An interfund loan for \$250,000 was approved by the City Council to be made from the (lender) Water Capital Improvement (406) Fund to the (borrower) Valentine Road Project (308) Fund to facilitate the claim payment of \$1,125,000 brought against the City (see note 9g.).

Note 7 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City of Pacific's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. Substantially all City of Pacific's full-time and qualifying employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement System.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

At June 30, 2018 (the measurement date of the plans), the City of Pacific's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	76,264	.012678%	\$601,581
PERS 2/3	99,602	.016307%	\$566,590
LEOFF 2	49,441	.031297%	(434,304)

LEOFF Plan 2

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

Note 8 - Risk Management

The City of Pacific is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and

administrative services. As of December 31, 2015, 102 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased from Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2015, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

Note 9 - Other Disclosures

a. Three City Council members are voting members of the Governance Board of the Valley Regional Fire Authority (VRFA) which provides fire protection services to the cities of Algona, Auburn and Pacific. The City has a continuing relationship with the VRFA for use of buildings and equipment.

b. In January 2009, the City of Pacific contracted with the City of Algona to provide its municipal court services. Court financial transactions related to the Algona contract flow through and are reflected in the current expense fund of the City of Pacific.

c. City Municipal Court deposits for the dates of July 6th, October 24th and October 26th were misplaced and never made it to the bank and never found. They amounted to \$19,779.15 of checks (\$15,808.15) and cash (\$3,971). This was reported to the Mayor and Council along with the State Auditors in November of 2018. A fraud specialist (James Peet CFE) was hired to investigate the deposits loss and his statement of findings was completed on January 31, 2019 and sent to the City and the State Auditors Fraud Division whom are still investigating Mr. Peet's report and as of May 30th have yet to report their determination to the City. To this date \$19,149.15 of the loss has been recovered, missing checks replaced totals \$14,711.15 and insurance from RMSA reimbursement totals \$4,438. This reduces the total loss to \$630 which is made up of checks that were not replaced to date.

d. Registered Local Improvement District Bond Anticipation Note (the "BAN") issued by the City and purchased by the Cashmere Valley Bank (the "Bank") at private sale up to \$5,700,000 in 2018. To repay the 2018 Bond Anticipation Note (the "BAN") issued by the City and purchased by the Cashmere Valley Bank (the "Bank") at private sale up to \$5,100,000 for interim construction costs and certain improvements related to the City of Sumner 136th/Valentine Consolidated LID as well as issuance costs of the BAN. The BAN will be structured with semiannual payments of interest and all principal due at maturity in up to one year all on mutually agreeable dates.

e. The City of Pacific entered into negotiations with the Teamsters Local Union No. 117 representing the Public Works and Clerical Group early (April) regarding the Collective Bargaining Agreement that was due to expire as of December 31st 2018. The City is represented by the City Administrator and the Public Works Manager in these negotiations. As of December 31st 2018 the negotiations continued until a settlement was reached on March 25, 2019.

City of Pacific
Schedule of Liabilities
For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.86	SRF Water Loan #01-65101-018 (Reservoir)	10/1/2022	547,150	-	139,192	407,958
263.86	SRF Water Loan #00-65120-020 (Corrosion)	10/1/2021	55,555	-	18,518	37,037
263.86	Ecology Stormwater Plan	7/15/2021	27,438	-	13,302	14,136
263.88	PWTF - Stewart/Valentine Water Main PC13-961-053	6/1/2033	2,243,915	-	170,168	2,073,747
263.62	Cashmere Bank/Bond Anticipation Note	11/1/2018	5,700,000	-	5,700,000	-
252.11	Utility Service Bond	12/1/2032	3,137,000	-	184,000	2,953,000
264.30	Pension Liabilities		896,376	-	181,928	714,448
259.12	Compensated Absences		229,938	172,292	-	402,230
Total Revenue and Other (non G.O.) Debt/Liabilities:			12,837,372	172,292	6,407,108	6,602,556
Assessment Debt/Liabilities (with commitments)						
253.63	LID'S	10/1/1932	-	4,774,140	-	4,774,140
Total Assessment Debt/Liabilities (with commitments):			-	4,774,140	-	4,774,140
Total Liabilities:			12,837,372	4,946,432	6,407,108	11,376,696

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		475,094	-	245,156	229,938
264.30	Pension Liabilities		1,168,171	-	271,795	896,376
263.86	SRF Water Loan 01-65101-018	10/1/2022	683,938	-	136,788	547,150
263.86	SRF Loan 00-65120-0020	10/1/2021	75,199	-	19,644	55,555
263.86	Ecology Storm Water Plan	7/15/2021	31,695	-	4,257	27,438
263.88	PWTF - Valentine/Thorton Ave PR13-951-087	6/1/2018	75,000	-	75,000	-
263.88	PWTF - Stewart/Valentine Water Main PC13-961-053	6/1/2033	2,328,434	-	84,519	2,243,915
263.62	Cashmere Bank/Bond Anticipation Note	11/1/2018	-	5,700,000	-	5,700,000
263.62	Cashmere Bank/City of Sumner Credit Line	1/23/2017	5,058,712	-	5,058,712	-
252.11	Utility Service Bond	12/1/1932	3,313,000	-	176,000	3,137,000
Total Revenue and Other (non G.O.) Debt/Liabilities:			13,209,244	5,700,000	6,071,871	12,837,372
Total Liabilities:			13,209,244	5,700,000	6,071,871	12,837,372

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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