



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Fircrest

For the period January 1, 2021 through December 31, 2021

Published January 26, 2023

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

January 26, 2023

Mayor and City Council
City of Fircrest
Fircrest, Washington

Report on Financial Statements

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

We are issuing this report in order to provide information on the City's financial activities and 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 Fircrest January 1, 2021 through December 31, 2021

Mayor and City Council
City of Fircrest
Fircrest, 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 Fircrest, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 12, 2023.

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.

REPORT ON 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) as a basis for designing 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 above 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 or significant deficiencies may exist that were not identified.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated January 19, 2023.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

January 12, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Fircrest January 1, 2021 through December 31, 2021

Mayor and City Council
City of Fircrest
Fircrest, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Fircrest, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Fircrest, and its changes in cash and investments, for the year ended December 31, 2021, on the basis of accounting described in Note 1.

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 Fircrest, as of December 31, 2021, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Emphasis of Matter

As discussed in Note 3 to the 2021 financial statements, as a result of the COVID-19 pandemic, the direct or indirect financial impact on the City is unknown. Management's plans in response to this matter are also described in Note 3. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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 BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS Manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to

prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2023 on our consideration of the City's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

January 12, 2022

FINANCIAL SECTION

City of Fircrest January 1, 2021 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2021
Notes to Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021

City of Fircrest
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 General Fund	105 Police Investigation Fund
Beginning Cash and Investments				
308	Beginning Cash and Investments	19,590,078	4,436,744	12,398
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	4,974,549	3,891,415	-
320	Licenses and Permits	535,904	535,904	-
330	Intergovernmental Revenues	2,514,435	1,416,726	-
340	Charges for Goods and Services	5,100,638	511,860	-
350	Fines and Penalties	228,792	228,792	-
360	Miscellaneous Revenues	1,618,383	169,103	12
Total Revenues:		14,972,701	6,753,800	12
Expenditures				
510	General Government	1,327,862	1,327,862	-
520	Public Safety	2,438,120	2,438,120	-
530	Utilities	3,515,299	-	-
540	Transportation	423,405	397,343	-
550	Natural/Economic Environment	79,069	76,701	-
560	Social Services	2,038	2,038	-
570	Culture and Recreation	841,080	841,080	-
Total Expenditures:		8,626,873	5,083,144	-
Excess (Deficiency) Revenues over Expenditures:		6,345,828	1,670,656	12
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	1,875,400	25,400	-
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	2,310,336	(2,988)	-
Total Other Increases in Fund Resources:		4,185,736	22,412	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	8,964,613	237,260	-
591-593, 599	Debt Service	934,363	-	-
597	Transfers-Out	1,875,400	850,000	-
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	2,317,614	4,912	-
Total Other Decreases in Fund Resources:		14,091,990	1,092,172	-
Increase (Decrease) in Cash and Investments:		(3,560,426)	600,896	12
Ending Cash and Investments				
50821	Nonspendable	-	-	-
50831	Restricted	4,830,111	473,948	12,410
50841	Committed	980,763	-	-
50851	Assigned	6,802,228	1,147,176	-
50891	Unassigned	3,416,565	3,416,565	-
Total Ending Cash and Investments		16,029,667	5,037,689	12,410

The accompanying notes are an integral part of this statement.

150 Cumulative Reserve Fund	201 Park Bond Debt Service Fund	301 Park Bond Capital Fund	310 Reet	415 Storm Drain	425 Water Fund (department)
3,780,763	105,673	4,020,116	1,697,480	856,867	677,477
-	-	-	-	-	-
-	588,075	-	495,059	-	-
-	-	-	-	-	-
-	-	980,000	-	42,456	75,253
-	-	-	-	519,502	1,079,146
-	-	-	-	-	-
-	12	1,324,647	1,918	932	102,218
-	588,087	2,304,647	496,977	562,890	1,256,617
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	426,290	1,046,199
-	-	-	-	-	-
-	-	-	-	-	2,368
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	426,290	1,048,567
-	588,087	2,304,647	496,977	136,600	208,050
-	-	-	-	-	-
500,000	-	1,000,000	-	-	350,000
-	-	-	-	-	-
-	-	2,300,000	-	-	13,324
500,000	-	3,300,000	-	-	363,324
-	-	7,585,090	-	35,746	605,531
-	573,700	-	-	-	46,429
1,000,000	-	-	25,400	-	-
-	-	-	-	-	-
2,300,000	-	-	-	-	12,702
3,300,000	573,700	7,585,090	25,400	35,746	664,662
(2,800,000)	14,387	(1,980,443)	471,577	100,854	(93,288)
-	-	-	-	-	-
-	120,060	2,039,673	2,169,058	-	14,962
980,763	-	-	-	-	-
-	-	-	-	957,709	569,216
-	-	-	-	-	-
980,763	120,060	2,039,673	2,169,058	957,709	584,178

The accompanying notes are an integral part of this statement.

430 Sewer Fund (department)	501 Equipment Rental Fund
2,561,892	1,440,668
-	-
-	-
-	-
-	-
2,730,615	259,515
-	-
2,986	16,555
<u>2,733,601</u>	<u>276,070</u>
-	-
-	-
2,042,810	-
-	26,062
-	-
-	-
-	-
<u>2,042,810</u>	<u>26,062</u>
<u>690,791</u>	<u>250,008</u>
-	-
-	-
-	-
-	-
<u>-</u>	<u>-</u>
-	-
468,712	32,274
314,234	-
-	-
-	-
-	-
<u>782,946</u>	<u>32,274</u>
<u>(92,155)</u>	<u>217,734</u>
-	-
-	-
-	-
2,469,724	1,658,403
-	-
<u>2,469,724</u>	<u>1,658,403</u>

The accompanying notes are an integral part of this statement.

City of Fircrest
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	Custodial
308	Beginning Cash and Investments	2,332	2,332
388 & 588	Net Adjustments	-	-
310-390	Additions	717,562	717,562
510-590	Deductions	718,303	718,303
	Net Increase (Decrease) in Cash and Investments:	(741)	(741)
508	Ending Cash and Investments	1,591	1,591

The accompanying notes are an integral part of this statement.

Note 1 - Summary of Significant Accounting Policies

The City of Fircrest was incorporated in 1925 and operates under the laws of the state of Washington applicable to a Non-Charter Code 2 City with a Council/City Manager form of government. The City of Fircrest is a general-purpose local government and provides public safety, municipal court, fire prevention, street improvement, parks and recreation and general administration. In addition, the City of Fircrest owns and operates water, sewer, and storm utilities.

The City of Fircrest 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.
- 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 presented using classifications that are different from the ending net position classifications 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:

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 for expenditures for principal, interest, and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted 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.

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Custodial Funds

These funds are used to account for 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 Fircrest 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 \$1,000 and an estimated useful life in excess of one year. Capital assets are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 1,940 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 6 – Long Term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance. When expenditures that meet restrictions are incurred, the City of Fircrest intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of:

The General and the Water Fund have restricted ending balances for \$473,948 and \$14,962 respectively for ARPA funds.

The Police Investigation Fund balance as of 12/31/2021 is \$12,410. Under State law, all monies received from the result of seizures, drug raids, etc. are required to be spent for police purposes.

The Cumulative Reserve Fund, created by Ordinance No. 956, consists of monies from the General Fund \$450,000 Street Fund \$150,000 as well as from the proprietary Water Fund \$11,513 and Sewer Fund \$369,250. These monies have been reserved for capital outlay and operation and maintenance for municipal purposes. Monies from said fund may be expended upon passage of ordinance by council.

The Park Bond Debt Service Fund created by Ordinance No. 1646 to account for the principal and interest payments related to the park bond debt. The balance as of 12/31/21 is \$120,060.

The Park Bond Capital Fund created by Ordinance No. 1647 consists of monies from the sale of the general obligation bond and donations received that are committed for park bond capital projects. The fund accounts for the revenue and expenditures associated with Park Bond Capital revenues and expenditures. The balance as of 12/31/2021 is \$2,039,673.

Real Estate Excise Tax Fund balance as of 12/31/2021 is \$2,169,058. Under State law, Fircrest can spend its real estate excise tax receipts only on capital projects specified in the capital facilities plan element of its comprehensive plan. Such capital projects are defined in FMC 3.36.040(d) and FMC 3.40.020.

Note 2 - Budget Compliance

The City of Fircrest adopts annual appropriated budgets for 14 funds. (For reporting purposes, the Street Fund has been included in the General Fund and the Storm, Water and Sewer Capital Funds have been included in their respective Funds). These budgets are appropriated at the fund 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 final appropriated and actual expenditures for the legally adopted budgets excluding ending fund balances were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$7,645,480	\$7,129,580	\$ 516,900
Police Investigation Fund	\$ 12,498	\$ 0	\$ 12,498
Cumulative Reserve Fund	\$3,303,692	\$3,300,000	\$ 3,692
Park Bond Debt Service	\$ 573,700	\$ 573,700	\$ 0
Park Bond Capital Fund	\$9,593,898	\$7,585,090	\$2,008,808
REET Fund	\$ 60,000	\$ 25,400	\$ 34,600
Storm Drain Fund	\$ 875,240	\$ 543,947	\$ 331,293
Water Fund	\$1,874,241	\$1,808,698	\$ 65,543
Sewer Fund	\$3,568,154	\$3,055,770	\$ 512,384
Equipment Rental Fund	\$ 218,161	\$ 175,006	\$ 43,155

The large variance in the General Fund is due to less expenditures in travel and recreation activities due to Covid restrictions and capital projects that were not performed. Variances in the Capital Bond Fund, Storm, and Sewer Funds are due to capital projects that were not performed.

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 Fircrest's legislative body. In 2021 there was two budget amendments authorized by Council.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

All public buildings were closed to the public until July 1, 2021, when the Governor's office announced the removal of the Stay-Home, Stay Healthy Order. The impact of this emergency resulted in a loss of revenue of recreation fees and other revenue line items. The City of Fircrest has implemented expenditure cost containments to help mitigate the loss to revenue. While some activities have been limited or temporarily curtailed, the City of Fircrest continues to operate all major functions and meet its public mandates. The City of Fircrest has remained economically stable and continues to adapt to the changing conditions.

In 2021 the Federal Government gave final approval for the American Rescue Plan Act (ARPA). Under the act, cities are authorized to use these federal funds to respond to the COVID-19 pandemic, cover costs incurred as a result of the public health emergency, replace lost, delayed, or decreased revenues due to COVID, address the negative economic impacts of the pandemic and make necessary investments in water, sewer and broadband infrastructure.

The City of Fircrest received \$954,920 from the Federal American Rescue Plan Act (ARPA) that was used to absorb some of the costs associated with Covid. In addition, the City of Fircrest was able to pass along \$32,105 in rental assistance and \$86,804 in business assistance and \$8,495 in utility assistance to Fircrest residents.

Note 4 – Deposits and Investments

Investments are reported at fair value. Deposits and investments by type at December 31, 2021 are as follows:

Type of deposit or investment	City of Fircrest's own deposits and investments	Deposits and investments held by the City of Fircrest for other local governments, individuals, or private organizations	Total
Bank Deposits	\$ 930,848	\$1,591	\$ 932,439
Local Government Investment Pool	\$15,098,832		\$15,098,832
Total	\$16,029,680	\$1,591	\$16,031,271



It is the City of Fircrest'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 Fircrest 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.

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, or 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 of Fircrest 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 of Fircrest's deposits 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 of Fircrest or its agent in the government's name.

Other Disclosures

Compensating Balance: The City of Fircrest has agreed to keep a \$500,000 average ledger balance with Columbia Bank to offset banking fees through consolidated account analysis.

Note 5 – Interfund Loans

The following table displays interfund loan activity during 2021.

Borrowing Fund	Lending Fund	Balance 1/1/2021	New Loans	Repayments	Balance 12/31/2021
Park Bond Capital	Cumulative Reserves	\$0	\$2,300,000	\$0	\$2,300,000
Totals		\$0	\$2,300,000	\$0	\$2,300,000

The interfund loan from the Cumulative Reserve Fund to the Park Bond Capital Bond Fund is to provide cash flow necessary to complete the community center project.

The loan for \$2,300,000 is to be paid back within three years with an interest rate of 0.5%. Annual principal and interest payments will be due in August 2022, 2023, and 2024. Donations for the project are pledged to the Greater Tacoma Community Foundation to be received in 2022 and 2023 for a total of \$2,500,000. These donations will be used to make the required payments of the loan.

Note 6 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City of Fircrest and summarizes the City of Fircrest's debt transactions for year ended December 31, 2021. The debt service requirements for general obligation bonds and other debt are as follows:

Year	Principal	Interest	Total
2022	\$408,088	\$367,243	\$ 775,331
2023	381,515	360,065	741,581
2024	399,236	353,468	752,704
2025	427,034	346,344	773,378
2026	529,912	338,390	868,301
2027 – 2031	3,510,657	1,452,266	4,962,923

2032 – 2036	3,618,466	907,047	4,525,514
2037 - 2041	2,415,000	197,600	2,612,600
Total	\$11,689,908	\$4,322,424	\$16,012,332

Note 7 – OPEB Plans

The City of Fircrest provides other post-employment benefits (OPEB) as listed on the Schedule of Liabilities for one retired employee that belongs to the LEOFF 1 defined benefit plan. These benefits include medical, dental, vision, and long-term care. These benefits are administered through AWC Trust, Unum Long Term Care and the LEOFF 1 Board. Total benefits paid out during 2021 was \$9,472.

Using the State Actuary's Alternative Measurement Method (AMM) online tool, the City of Fircrest's liability as of December 31, 2021 is \$441,313.

Note 8 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City of Fircrest'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 PERS and LEOFF.

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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

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

As of June 30, 2021 (the measurement date of the plans), the City of Fircrest's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

Plan	Employer Contributions	Allocation %	Liability (Asset)
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PERS 1/UAAL	91,660	0.012305%	150,273
PERS 2/3	149,791	0.015813%	(1,575,229)
LEOFF 1		0.002000%	(68,511)
LEOFF 2	40,924	0.020529%	(1,192,409)

LEOFF Plan 1

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

LEOFF Plan 2

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

Note 9 - 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 of Fircrest. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Fircrest's regular levy for the year 2021 was \$1.4837 per \$1,000 on an assessed valuation of \$1,083,449,810 for a total regular levy of \$1,607,549.

In 2021 the City of Fircrest levied an additional amount of \$0.4999 per \$1,000 for Emergency Medical Service on an assessed valuation of \$1,083,449,810 for a total additional levy of \$541,657.

In 2021 the City of Fircrest levied an additional excess levy of \$0.5529 per \$1,000 for a voter approved park bond on an assessed valuation of \$1,068,872,920 for a total additional levy of \$591,000.

Note 10 – Risk Management

A. Property and Liability Risk

The City of Fircrest is a member of Cities Insurance Association of Washington(CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program 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 program was formed on September 1, 1988, when 34 cities 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 November 30, 2021, there are 192 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, Wrongful Acts, and Cyber which are included to fit the member's various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per occurrence self-insured retention (SIR) of \$100,000. Members are responsible for a \$1,000 deductible for each claim, while the program is responsible for the \$100,000 SIR. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the \$100,000 SIR, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$3,505,566 which is fully funded in its annual budget.

Property insurance is subject to a per occurrence SIR of \$100,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$100,000 SIR, in addition to the deductible.

Crime insurance is subject to a per occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 SIR, in addition to the deductible.

Equipment Breakdown insurance is subject to a per occurrence deductible of \$2,500, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program SIR on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Cyber liability insurance is subject to a per-occurrence SIR of \$50,000. Members are responsible for a \$10,000 deductible for each claim, while the program is responsible for the remaining \$40,000 SIR.

Members contract to remain in the program for a minimum of one year and must give notice before December 1 to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2021, were \$2,772,986.77.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

B. Health Insurance

The City of Fircrest 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through Intermediary Insurance Services. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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.

C. Unemployment

The City of Fircrest is a reimbursable employer through the Washington State Employment Security Department (ESD) Unemployment Insurance program. The City of Fircrest does not pay unemployment premiums to ESD. The claims process is handled by ESD which includes verifying employment information, determining benefit payments, and submitting payments to the individual. ESD then invoices the City of Fircrest for the prorated amount of benefits paid based on the time the individual worked for the City of Fircrest. The City of Fircrest has sufficient resources in fund balances to handle any future claims. The amount paid in 2021 was \$7,888.

Note 11 – Other Disclosures

- a. The City's financial statements include all material liabilities. City management believes there are no material contingent liabilities to record.
- b. As of December 31, 2021, the City of Fircrest was a defendant in the following lawsuit: Riviera Community Club, Inc. v. Hagop Ouzounian, et. Al. (Pierce County Superior Court Case No. 21-2-07645-1). The lawsuit was a complaint for foreclosure related to a homeowner's assessment lien, and the city was voluntary dismissed with prejudice in 2022.

In an outstanding litigation listed in the December 31, 2020 report, a jury ruled in favor of the City

of Fircrest in the Susan Crawford v. City of Fircrest case that was filed in the Pierce County Superior Court under case number 16-2-13036-0 in August of 2021.

- c. The City has active construction projects as of December 31, 2021. At year end the City's construction commitment with contractors are:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining</u>	<u>Funding Source</u>
Community Center			
Kassel	\$7,439,945	\$883,513	Bond Proceeds/Donations/Grant
Engineering Economics	\$ 10,150	\$ 2,050	Bond Proceeds/Donations/Grant
Material Testing	\$ 11,669	\$ 4,337	Bond Proceeds/Donations/Grant
Parametrix	\$ 92,637	\$ 68,863	Bond Proceeds/Donations/Grant
Geo Engineering	\$ 35,957	\$ 26,818	Bond Proceeds/Donations/Grant
Total	\$7,590,358	\$985,581	

The City of Fircrest will not need to raise any funds for the committed balance of \$985,581.

City of Fircrest
Schedule of Liabilities
For the Year Ended December 31, 2021

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.22	Pool/Recreation Center Bond Issued 2019	12/31/2039	8,545,000	-	250,000	8,295,000
	Total General Obligation Debt/Liabilities:		8,545,000	-	250,000	8,295,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences General Fund		123,860	-	348	123,512
259.12	Compensated Absences Proprietary Fund		38,020	1,685	-	39,705
264.30	Pension Liability		673,469	-	523,196	150,273
263.82	Water Supply Improvement Loan Issued 2003	12/31/2022	88,436	-	44,218	44,218
263.82	PWTF Sewer Loan issued 2011	6/1/2031	1,876,424	-	170,584	1,705,840
264.40	Other Post Employment Benefits OPEB		428,699	12,614	-	441,313
263.82	DOE Sewer Loan Issued 2011	3/31/2033	1,735,563	-	90,713	1,644,850
	Total Revenue and Other (non G.O.) Debt/Liabilities:		4,964,471	14,299	829,059	4,149,711
	Total Liabilities:		13,509,471	14,299	1,079,059	12,444,711

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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.

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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.

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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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