



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Pacific

King County

For the period January 1, 2013 through December 31, 2013

Published February 2, 2015

Report No. 1013541





Washington State Auditor
Troy Kelley

February 2, 2015

Mayor and City 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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Pacific
King County
January 1, 2013 through December 31, 2013**

Mayor and City 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, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 21, 2015.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 21, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Pacific King County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Pacific
Pacific, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Pacific, King County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Pacific, for the year ended December 31, 2013, 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, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying 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 21, 2015 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 21, 2015

FINANCIAL SECTION

**City of Pacific
King County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

City of Pacific
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2013

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>101 Street</u>	<u>107 Tourism</u>
Beginning Cash and Investments					
30810	Reserved	190,192	134,531	36,611	19,051
30880	Unreserved	5,631,329	1,459,183	109,833	57,153
388 & 588	Prior Period Adjustments, Net	-	-	-	-
Operating Revenues					
310	Taxes	3,025,504	2,846,585	-	9,130
320	Licenses & Permits	223,710	207,935	15,775	-
330	Intergovernmental Revenues	353,648	145,434	136,854	-
340	Charges for Goods and Services	3,425,495	198,249	-	-
350	Fines & Penalties	187,891	121,366	-	-
360	Miscellaneous Revenues	112,120	50,750	123	108
Total Operating Revenues:		<u>7,328,368</u>	<u>3,570,319</u>	<u>152,752</u>	<u>9,238</u>
Operating Expenditures					
510	General Government	950,292	946,916	-	-
520	Public Safety	1,972,775	1,972,775	-	-
530	Utilities	2,718,534	-	-	-
540	Transportation	254,829	-	254,829	-
550	Natural and Economic Environment	211,371	207,451	-	3,920
560	Social Services	-	-	-	-
570	Culture And Recreation	340,596	340,596	-	-
Total Operating Expenditures:		<u>6,448,397</u>	<u>3,467,738</u>	<u>254,829</u>	<u>3,920</u>
Net Operating Increase (Decrease):		879,971	102,581	(102,077)	5,318
Nonoperating Revenues					
370-380, 395 & 398	Other Financing Sources	414,216	361,556	-	-
391-393	Debt Proceeds	176,904	-	-	-
397	Transfers-In	143,000	-	100,000	-
Total Nonoperating Revenues:		<u>734,120</u>	<u>361,556</u>	<u>100,000</u>	<u>-</u>
Nonoperating Expenditures					
580, 596 & 599	Other Financing Uses	346,599	346,599	-	-
591-593	Debt Service	267,250	28,885	-	-
594-595	Capital Expenditures	324,530	8,373	13,237	-
597	Transfers-Out	143,000	100,000	-	-
Total Nonoperating Expenditures:		<u>1,081,379</u>	<u>483,858</u>	<u>13,237</u>	<u>-</u>
Net Increase (Decrease) in Cash and Investments:		532,712	(19,720)	(15,314)	5,318
Ending Cash and Investments					
50810	Reserved	187,676	134,561	32,754	20,361
50880	Unreserved	6,166,557	1,439,431	98,376	61,161

The accompanying notes are an integral part of this statement.

206 LID 3 Redemption	207 LID 3 Reserve	208 2000 Fire GO Bond	300 Municipal Capital Improvements	301 Roads Capital Improvements	308 Valentine Road Project
-	-	-	-	-	-
118,877	958	126,121	212,805	127,627	254,858
-	-	-	-	-	-
-	-	-	169,789	-	-
-	-	-	-	-	-
-	-	-	-	31,232	-
650	-	-	-	-	-
4,624	-	-	-	-	-
25,068	2	149	30,639	178	363
30,343	2	149	200,428	31,410	363
3,376	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,376	-	-	-	-	-
26,967	2	149	200,428	31,410	363
-	-	-	-	-	-
176,904	-	-	-	-	-
-	-	-	-	43,000	-
176,904	-	-	-	43,000	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	35,478	42,203	45,840
-	-	-	43,000	-	-
-	-	-	78,478	42,203	45,840
203,871	2	149	121,950	32,207	(45,477)
-	-	-	-	-	-
322,747	960	126,269	334,755	159,835	209,381

The accompanying notes are an integral part of this statement.

310 Stewart/Thornton Ave Rd Projec	333 Fire Capital Improvement	401 Water	402 Sewer	403 Garbage	409 Storm
-	-	-	-	-	-
284,075	56,750	1,522,503	639,119	269,065	392,404
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	20,982	19,146
-	4,437	1,031,529	1,634,205	3,744	552,681
-	-	18,947	32,112	-	10,841
274	79	2,437	837	318	795
274	4,516	1,052,914	1,667,154	25,044	583,463
-	-	-	-	-	-
-	-	-	-	-	-
-	-	682,040	1,733,780	28,229	274,486
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	682,040	1,733,780	28,229	274,486
274	4,516	370,874	(66,626)	(3,185)	308,977
-	-	30,611	18,000	-	4,050
-	-	-	-	-	-
-	-	-	-	-	-
-	-	30,611	18,000	-	4,050
-	-	-	-	-	-
-	-	178,644	-	-	59,721
99,661	-	-	13,528	-	66,209
-	-	-	-	-	-
99,661	-	178,644	13,528	-	125,931
(99,387)	4,516	222,841	(62,154)	(3,185)	187,097
-	-	-	-	-	-
184,688	61,265	1,745,344	576,964	265,881	579,501

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, 2013

	<u>Total for All Funds (Memo Only)</u>	<u>601 Customer Deposits</u>	<u>630 Developer Deposit</u>	<u>640 Algona Court</u>
308 Beginning Cash and Investments	46,273	5,160	25,684	15,429
388 & 588 Prior Period Adjustments, Net	-	-	-	-
310-360 Revenues	0	0	-	-
380-390 Other Increases and Financing Sources	187,240	-	13,371	173,868
510-570 Expenditures	-	-	-	-
580-590 Other Decreases and Financing Uses	178,306	-	1,000	177,306
Net Increase (Decrease) in Cash and Investments:	8,933	-	12,371	(3,438)
508 Ending Cash and Investments	55,207	5,160	38,055	11,992

The accompanying notes are an integral part of this statement.

The following are fund types used by the City of Pacific.

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund

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

Special Revenue Funds

These funds account for the financial resources that are restricted, committed or assigned to expenditures for specified purposes of the City.

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 Project 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 City of Pacific in a trustee capacity or as an agent on behalf of others.

Agency Funds

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

B. Basis of Accounting

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

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. Budgets

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	4,600,000	4,383,088	216,912
Senior Services	205,000	177,618	27,382
Youth Services	135,000	133,076	1,924
Parks Fund	250,000	222,228	27,772
Neighborhood Parks	7,500	6,144	1,356
Tourism	90,000	85,365	4,635
Public Safety Forfeiture	6,000	5,644	356
Criminal Justice	750,000	747,572	2,428
General Equip. Reserve	45,000	42,494	2,506
General Cumulative Reserve	150,000	134,561	15,439
Street Fund	450,000	399,082	50,918
LID 3 Redemption	375,000	325,815	49,185
LID 3 Reserve	1,000	959	41
2000 Fire GO Bond	135,000	126,149	8,851
Municipal Capital Improv	450,000	412,890	37,110

Stewart/8th Corridor	225,000	176,518	48,482
Valentine Road Proj	300,000	255,034	44,966
Stewart/Thornton Ave	325,000	284,243	40,757
Fire Capital Improv	75,000	61,205	13,795
Water O&M	1,500,000	1,431,195	68,805
Sewer O&M	2,000,000	1,814,424	185,576
Garbage	310,000	293,852	16,148
Water Capital Improv	950,000	849,511	100,489
Sewer Cumulative	675,000	607,705	67,295
Stormwater	900,000	899,175	825
Stormwater Facility	125,000	91,738	33,262
Pierce County/Webstone	200,000	180,053	19,947
Utilities Equip Reserve	175,000	143,684	31,316

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's legislative body.

d. Cash

It is the City of Pacific's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

e. Deposits

The City of Pacific deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC), as well as the Washington Public Deposit Protection Commission (WPDPC).

f. Investments See Note No. 3

g. Capital Assets

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

h. Compensated Absences

Vacation leave is earned annually based upon full time employment and longevity. Employees are allowed to accumulate vacation hours up to a maximum of twice their allowed vacation earnings per year of service. 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 hrs. Upon separation or retirement non police staff employees will receive payment for unused sick leave at a rate equal to ¼ of the sick leave accumulated, where as police staff employees receive 1/3 of the sick leave accumulated.

i. Long-Term Debt See Note No. 6

j. Other Financing Sources or Uses

The City of Pacific's "Other Financing Sources or Uses" consist of Transfers-in and out between funds.

k. Risk Management

The City of Pacific in 2013 had liability insurance provided by Lexington Insurance Company. Property insurance coverage is provided by Landmark Insurance Company. The City of Pacific has joined the RMSA pool late as of January 1, 2014 year which has helped to reduce risk and coverage costs.

Lexington liability insurance through their Administrator, Arthur Gallagher, that is subject to a per-occurrence self-insured retention of \$250,000. Members are responsible for the deductible amount of each claim, while the insurer is responsible for the remaining amount. Insurance carriers cover insured losses over the deductible to the limits of each policy.

All property insurance is subject to a per-occurrence deductible of \$5,000, \$50,000 for flood related, and 5% per unit of insurance, subject to a \$25,000 minimum. Members are responsible for the deductible amount of each claim.

These numbers have changed in 2014 (reduced dramatically) with the City's inclusion into the RMSA.

l. Reserved Fund Balance

The City of Pacific has the following funds identified as reserved and/or restricted from appropriation:

099 - Cumulative Reserve	\$134,560.70
101 - Street	\$ 32,753.87
107 - Tourism	\$ 20,361.33

The Council established the General Fund Cumulative Reserve with ordinance #1712. The ordinance states that the use of the funds shall be restricted to cover revenue shortfalls which may be authorized only by action of the Council by resolution or ordinance. When expenditures that meet restrictions are incurred, the city intends to use reserved resources first before using unreserved amounts.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

There have been no funds exceeding their lawful appropriation.

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

NOTE 3 - INVESTMENTS

The City of Pacific's investments are insured, registered, or held by the City of Pacific or its agent in the City of Pacific's name.

The investments are presented at cost. Investments by type at December 31, 2013 are as follows:

Type of Investment	City's Own Investments	Investments held by the City as an agent for other local governments, individuals or private organizations	Total
LGIP	\$ 3,748,196.64		\$ 3,748,196.64
CD	\$ 29,846.95		\$ 29,846.95
Totals	\$ 3,778,043.59		\$ 3,778,043.59

NOTE 4 - PROPERTY TAX

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

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

The City of Pacific's levy rate for 2013 was 1.66384 per \$1,000 on an assessed valuation of \$543,973,499 or a total regular levy of \$894,640.

NOTE 5 - DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the City of Pacific and summarizes the City's debt transactions for 2013. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

	General Obligation Debt	Revenue Debt	Other Debt	Total Debt
2013	472,767.00	233,458.23		706,225.23
2014	34,739.85	231,124.50		265,864.35
2015	28,619.90	183,789.43		212,409.33
2016	28,619.91	181,455.61		210,075.52
2017	28,619.91	179,121.80		207,741.71
2018 - 2022	.00	831,988.67		831,988.67
Totals	593,366.57	1,840,938.24		2,434,304.81

NOTE 6 - PENSION PLANS

Substantially all City of Pacific full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement Systems; under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Pacific's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding the PERS plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 PO Box 48380
 Olympia, WA 98504-8380

NOTE 7 - 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. The City entered into agreement with a developer, MJF Holdings, Inc. to receive payment of shared cost of land for construction of a stormwater reservoir. In early 2009, the developer failed to execute the payment agreement. In June 2009, the City Council accepted, as fulfillment of this obligation, a promissory note in amount of \$116,311.41 at 12% interest payable on July 1, 2012; said note is secured by liens on three parcels owned by developer.

d. On January 15, 2010, the Office of Financial Management (OFM) issued a cease and desist order against the Cities Insurance Association of Washington (CIAW). This order was issued based upon a projected funding shortfall for potential unpaid claims liabilities for the fiscal years 2003-2007. On February 25, 2010, the CIAW submitted a plan to OFM to address the concerns raised in the cease and desist order. Included in the plan was a reassessment of \$986,214.00 to be charged back to all participating cities during the years in question. Each city will have 5 years to repay their proportionate share of the reassessment, and this will be computed between three and six percent of their 2002-2006 premiums. The third installment of the reassessment that the City paid was in October of 2013 for the amount of \$6,119.94.

e. The City is aware of a material weakness with Springbrook in 2013 where it does not record certain cash receipts for utilities to the general ledger (401, 402 and 409). The finance director approved a journal entry to estimate this error driven by the reconciling offset. Staff suspects that this is a result of the upgrade performed in January of 2013.

g. The City is self-disclosing subsequent events in the form of potential litigation. Due to already disclosed legal issues in 2012 the City was forced to secure insurance coverage for the City. On December 31, 2012 the City secured private insurance and is continuing to conduct business. As of January 1, 2014 the City has joined with AWC to gain acceptance to their Risk Management Service Agency (RMSA).

h. The City, due to a tumultuous period and numerous lawsuits brought about by staff firings among some of the reasons, pursued a recall vote regarding Mayor Sun. Once the recall vote was approved by the State Supreme Court the Citizens in Pacific voted in favor of recalling Mayor Cy Sun on June 25, 2013, in this rare recall election. The City Council nominated Councilmember Leanne Guier to become the City's new Mayor and fulfill the term vacated by the prior Mayor through 2015.

City of Pacific

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	263.51	Bank New York Mellon - Patrol cars	6/1/2017	136,182	136,181	26,158	246,205
	263.11	CIAW Risk Pool- Claims Assessment	10/1/2014	12,240	0	6,120	6,120
	259.11	Gen - Compensated Absence		278,837	49,166		328,003
Total General Obligations:				427,259	185,347	32,278	580,328
Revenue Obligations							
	263.82	SRF Loan #01-65101-018 Water Reservoir	10/1/2022	1,367,877	0	136,788	1,231,089
	263.82	SRF Loan 00-65120-020 Water Corosion	10/1/2021	169,198	0	18,800	150,398
	263.82	Ecology Stormwater-Plan #L99000022	7/15/2021	69,964	0	10,427	59,537
	263.52	Baguio - Regional Storm Property	1/1/2014	153,866	0	39,936	113,930
	259.12	Comp Absences - Special Revenues		5,387		2,766	2,621
	259.12	Water - Compensated		14,946		4,425	10,521
	259.12	Sewer - Compensated		8,672		3,479	5,193
	259.12	Garbage - Compensated		0		0	0
	259.12	Storm Utility - Compensated Absence		7,552		1,966	5,586
Total Revenue Obligations:				1,797,462	0	218,587	1,578,874
Total Liabilities:				2,224,721	185,347	250,865	2,159,202

The accompanying notes to the financial statements are an integral part of this schedule

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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