



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

## **Financial Statements Audit Report**

# **City of Pacific**

**King County**

**For the period January 1, 2015 through December 31, 2016**

**Published February 8, 2018**

**Report No. 1020674**





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

February 8, 2018

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,

Pat McCarthy  
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, 2015 through December 31, 2016**

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 years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated February 1, 2018.

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 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 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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated February 1, 2018.

## **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

February 1, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Pacific King County January 1, 2015 through December 31, 2016**

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 years ended December 31, 2016 and 2015, 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 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 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 years ended December 31, 2016 and 2015, 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, 2016 and 2015, or the changes in financial position or cash flows 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.

## Other Matters

### *Supplementary and Other Information*

Our audits were performed 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 February 1, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

February 1, 2018

## **FINANCIAL SECTION**

**City of Pacific  
King County  
January 1, 2015 through December 31, 2016**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2016 and 2015  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016 and 2015  
Notes to Financial Statements – 2016 and 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2016 and 2015

**City of Pacific**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>101 Street</b>	<b>107 Tourism</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	481,496	402,767	51,221	27,509
30880	Unreserved	7,751,325	2,028,648	203,835	82,526
388 / 588	Prior Period Adjustments, Net	28,509	-	(170,564)	-
<b>Revenues</b>					
310	Taxes	3,596,904	3,378,810	-	18,512
320	Licenses and Permits	240,403	225,803	14,600	-
330	Intergovernmental Revenues	642,922	237,809	154,655	-
340	Charges for Goods and Services	4,175,684	323,889	-	-
350	Fines and Penalties	190,509	129,641	-	-
360	Miscellaneous Revenues	320,396	95,407	2,192	1,300
Total Revenues:		<u>9,166,818</u>	<u>4,391,359</u>	<u>171,447</u>	<u>19,813</u>
<b>Expenditures</b>					
510	General Government	1,012,720	1,012,720	-	-
520	Public Safety	2,381,835	2,381,835	-	-
530	Utilities	3,160,539	-	-	-
540	Transportation	440,114	22,033	406,610	-
550	Natural and Economic Environment	305,096	293,986	-	10,365
560	Social Services	167,124	167,124	-	-
570	Culture and Recreation	260,321	256,336	-	-
Total Expenditures:		<u>7,727,749</u>	<u>4,134,035</u>	<u>406,610</u>	<u>10,365</u>
Excess (Deficiency) Revenues over Expenditures:		1,439,069	257,325	(235,163)	9,447
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	709,380	3,413	-	-
397	Transfers-In	856,908	148,408	285,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	134,395	134,395	-	-
381, 395, 398	Other Resources	14,726	14,726	-	-
Total Other Increases in Fund Resources:		<u>1,715,409</u>	<u>300,941</u>	<u>285,000</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	2,376,851	262,041	-	-
591-593, 599	Debt Service	379,829	28,620	-	-
597	Transfers-Out	856,908	20,000	15,750	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	131,861	131,861	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>3,745,449</u>	<u>442,522</u>	<u>15,750</u>	<u>-</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(590,971)</b>	<b>115,744</b>	<b>34,087</b>	<b>9,447</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	1,193,040	-	-	119,482
5088000	Unreserved	6,477,319	2,547,158	118,578	-
<b>Total Ending Cash and Investments</b>		<b><u>7,670,359</u></b>	<b><u>2,547,158</u></b>	<b><u>118,578</u></b>	<b><u>119,482</u></b>

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, 2016**

	<b>300 Municipal Capital Improvements</b>	<b>301 Roads Capital Improvements</b>	<b>305 Parks Capital Improvement</b>	<b>308 Valentine Road Project</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	434,521	297,166	113,744
388 / 588	Prior Period Adjustments, Net	85,282	85,282	-
<b>Revenues</b>				
310	Taxes	99,791	99,791	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	43,479	2,366	-
340	Charges for Goods and Services	-	1,400	8,591
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	3,406	1,417	843
Total Revenues:		146,676	104,974	9,434
<b>Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	-	-	-
540	Transportation	-	-	-
550	Natural and Economic Environment	331	137	64
560	Social Services	-	-	-
570	Culture and Recreation	-	-	3,984
Total Expenditures:		331	137	4,048
Excess (Deficiency) Revenues over Expenditures:		146,345	104,837	5,386
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	126,000
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	126,000
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	64,489	120,888	21,851
591-593, 599	Debt Service	-	77,250	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		64,489	198,138	21,851
<b>Increase (Decrease) in Cash and Investments:</b>		<b>81,856</b>	<b>(93,301)</b>	<b>(16,465)</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	601,659	289,147	97,279
5088000	Unreserved	-	-	190,482
<b>Total Ending Cash and Investments</b>		<b>601,659</b>	<b>289,147</b>	<b>97,279</b>
		<b>190,482</b>		

**City of Pacific**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

	<b>309 West Valley</b>	<b>310 Stewart/Thornton Ave Rd Project</b>	<b>333 Fire Capital Improvement</b>	<b>401 Water</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	26,357	918	76,197
388 / 588	Prior Period Adjustments, Net	-	-	2,536,561
				28,509
<b>Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	12,976	174,944	-
340	Charges for Goods and Services	-	-	8,789
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	89	93,335	550
	Total Revenues:	13,065	268,279	9,339
<b>Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	-	-	800,447
540	Transportation	-	-	-
550	Natural and Economic Environment	26	5	63
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
	Total Expenditures:	26	5	63
	Excess (Deficiency) Revenues over Expenditures:	13,039	268,274	9,276
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	705,968
397	Transfers-In	102,500	90,000	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
	Total Other Increases in Fund Resources:	102,500	90,000	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	87,787	302,847	-
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	374,089
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
	Total Other Decreases in Fund Resources:	87,787	302,847	-
	<b>Increase (Decrease) in Cash and Investments:</b>	<b>27,752</b>	<b>55,427</b>	<b>9,276</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	-	85,473
5088000	Unreserved	54,109	56,346	-
	<b>Total Ending Cash and Investments</b>	<b>54,109</b>	<b>56,346</b>	<b>85,473</b>
				<b>(968,908)</b>

**City of Pacific**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<u>402 Sewer</u>	<u>403 Garbage</u>	<u>409 Storm</u>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	622,413	275,920	982,937
388 / 588	Prior Period Adjustments, Net	-	-	-
<b>Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	16,692	-
340	Charges for Goods and Services	2,077,214	-	729,895
350	Fines and Penalties	16,383	-	8,853
360	Miscellaneous Revenues	5,077	1,918	7,090
Total Revenues:		<u>2,098,673</u>	<u>18,611</u>	<u>745,838</u>
<b>Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	1,905,124	16,307	438,660
540	Transportation	-	-	11,471
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		<u>1,905,124</u>	<u>16,307</u>	<u>450,131</u>
Excess (Deficiency) Revenues over Expenditures:		193,550	2,303	295,707
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	-	-	6,369
591-593, 599	Debt Service	-	-	4,907
597	Transfers-Out	119,192	-	327,877
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		<u>119,192</u>	<u>-</u>	<u>339,152</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>74,358</b>	<b>2,303</b>	<b>(43,445)</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	-	-
5088000	Unreserved	696,769	278,224	939,492
<b>Total Ending Cash and Investments</b>		<b>696,769</b>	<b>278,224</b>	<b>939,492</b>

**City of Pacific**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>101 Street</u>	<u>107 Tourism</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	199,078	134,958	36,611	27,509
30880	Unreserved	7,177,206	1,663,434	44,319	66,352
388 & 588	Prior Period Adjustments, Net	-	9,340	(961)	-
<b>Operating Revenues</b>					
310	Taxes	3,373,501	3,185,750	170,564	17,186
320	Licenses and Permits	260,201	242,196	18,005	-
330	Intergovernmental Revenues	2,766,289	238,966	143,922	-
340	Charges for Goods and Services	4,034,528	327,970	-	-
350	Fines and Penalties	180,877	110,302	-	-
360	Miscellaneous Revenues	142,803	65,997	863	458
Total Operating Revenues:		<u>10,758,200</u>	<u>4,171,181</u>	<u>333,354</u>	<u>17,645</u>
<b>Operating Expenditures</b>					
510	General Government	976,051	976,051	-	-
520	Public Safety	2,136,094	2,136,094	-	-
530	Utilities	3,070,266	-	-	-
540	Transportation	314,107	-	313,267	-
550	Natural and Economic Environment	273,921	272,451	-	1,471
560	Social Services	184,726	184,726	-	-
570	Culture and Recreation	196,296	189,584	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		<u>7,151,461</u>	<u>3,758,906</u>	<u>313,267</u>	<u>1,471</u>
Net Operating Increase (Decrease):		<u>3,606,739</u>	<u>412,275</u>	<u>20,087</u>	<u>16,174</u>
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	157,873	136,473	-	-
391-393	Debt Proceeds	1,059,890	11,526	-	-
397	Transfers-In	1,090,695	535,695	170,000	-
Total Nonoperating Revenues:		<u>2,308,457</u>	<u>683,694</u>	<u>170,000</u>	<u>-</u>
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	156,781	156,701	-	-
591-593	Debt Service	326,281	28,233	-	-
594-595	Capital Expenditures	3,484,901	202,703	-	-
597	Transfers-Out	1,090,695	85,000	15,000	-
Total Nonoperating Expenditures:		<u>5,058,658</u>	<u>472,638</u>	<u>15,000</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>856,539</b>	<b>623,332</b>	<b>175,087</b>	<b>16,174</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	299,976	-	-	110,035
5088000	Unreserved	7,932,846	2,431,065	255,055	-
<b>Total Ending Cash and Investments</b>		<b>8,232,821</b>	<b>2,431,065</b>	<b>255,055</b>	<b>110,035</b>

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, 2015**

		<u>300 Municipal Capital Improvements</u>	<u>301 Roads Capital Improvements</u>	<u>305 Parks Capital Improvement</u>	<u>308 Valentine Road Project</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	830,734	254,459	111,470	191,876
388 & 588	Prior Period Adjustments, Net	-	-	-	-
<b>Operating Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	145,191	-	-
340	Charges for Goods and Services	-	-	6,117	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,788	1,581	473	1,062
Total Operating Revenues:		<u>3,788</u>	<u>146,773</u>	<u>6,590</u>	<u>1,062</u>
<b>Operating Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	6,712	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		<u>-</u>	<u>-</u>	<u>6,712</u>	<u>-</u>
Net Operating Increase (Decrease):		3,788	146,773	(122)	1,062
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	-	-	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	120,000
Total Nonoperating Revenues:		<u>-</u>	<u>-</u>	<u>-</u>	<u>120,000</u>
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	-	-	-	-
594-595	Capital Expenditures	-	104,066	(2,396)	243,355
597	Transfers-Out	400,000	-	-	-
Total Nonoperating Expenditures:		<u>400,000</u>	<u>104,066</u>	<u>(2,396)</u>	<u>243,355</u>
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>(396,212)</b>	<b>42,707</b>	<b>2,274</b>	<b>(122,293)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	113,744	-
5088000	Unreserved	434,521	297,166	-	69,582
<b>Total Ending Cash and Investments</b>		<b>434,521</b>	<b>297,166</b>	<b>113,744</b>	<b>69,582</b>

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, 2015**

	<u>309 West Valley</u>	<u>310 Stewart/Thornton Ave Rd Project</u>	<u>333 Fire Capital Improvement</u>	<u>401 Water</u>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	590,859	69,740	1,746,358
388 & 588	Prior Period Adjustments, Net	-	-	(3,384)
<b>Operating Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	163,756	1,916,405	-
340	Charges for Goods and Services	-	6,129	1,014,709
350	Fines and Penalties	-	-	50,126
360	Miscellaneous Revenues	192	328	58,914
	Total Operating Revenues:	<u>163,947</u>	<u>1,917,121</u>	<u>1,123,749</u>
<b>Operating Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	-	-	796,755
540	Transportation	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
598	Miscellaneous Expenses	-	-	-
	Total Operating Expenditures:	<u>-</u>	<u>-</u>	<u>796,755</u>
	Net Operating Increase (Decrease):	<u>163,947</u>	<u>6,457</u>	<u>326,994</u>
<b>Nonoperating Revenues</b>				
370-380, 395 & 398	Other Financing Sources	-	-	150
391-393	Debt Proceeds	-	-	1,048,363
397	Transfers-In	50,000	55,000	150,000
	Total Nonoperating Revenues:	<u>50,000</u>	<u>-</u>	<u>1,198,513</u>
<b>Nonoperating Expenditures</b>				
580, 596 & 599	Other Financing Uses	-	-	80
591-593	Debt Service	-	77,458	210,776
594-595	Capital Expenditures	187,590	2,484,603	264,949
597	Transfers-Out	-	-	256,114
	Total Nonoperating Expenditures:	<u>187,590</u>	<u>-</u>	<u>731,920</u>
	<b>Net Increase (Decrease) in Cash and Investments:</b>	<u><b>26,357</b></u>	<u><b>(589,940)</b></u>	<u><b>6,457</b></u>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	76,197	-
5088000	Unreserved	26,357	918	2,536,561
	<b>Total Ending Cash and Investments</b>	<u><b>26,357</b></u>	<u><b>76,197</b></u>	<u><b>2,536,561</b></u>

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, 2015**

	<u>402 Sewer</u>	<u>403 Garbage</u>	<u>409 Storm</u>
<b>Beginning Cash and Investments</b>			
30810	Reserved	-	-
30880	Unreserved	274,556	697,858
388 & 588	Prior Period Adjustments, Net	(2,591)	(2,405)
<b>Operating Revenues</b>			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	19,852	138,197
340	Charges for Goods and Services	350	708,626
350	Fines and Penalties	-	4,596
360	Miscellaneous Revenues	1,252	3,869
	Total Operating Revenues:	<u>1,989,792</u>	<u>855,287</u>
<b>Operating Expenditures</b>			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	19,740	389,554
540	Transportation	-	840
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
598	Miscellaneous Expenses	-	-
	Total Operating Expenditures:	<u>1,864,216</u>	<u>390,394</u>
	Net Operating Increase (Decrease):	125,576	464,893
<b>Nonoperating Revenues</b>			
370-380, 395 & 398	Other Financing Sources	-	21,250
391-393	Debt Proceeds	-	-
397	Transfers-In	10,000	-
	Total Nonoperating Revenues:	<u>10,000</u>	<u>21,250</u>
<b>Nonoperating Expenditures</b>			
580, 596 & 599	Other Financing Uses	-	-
591-593	Debt Service	-	9,813
594-595	Capital Expenditures	-	30
597	Transfers-Out	145,765	188,816
	Total Nonoperating Expenditures:	<u>145,765</u>	<u>198,659</u>
	<b>Net Increase (Decrease) in Cash and Investments:</b>	<b>(10,189)</b>	<b>287,484</b>
<b>Ending Cash and Investments</b>			
5081000	Reserved	-	-
5088000	Unreserved	622,413	982,937
	<b>Total Ending Cash and Investments</b>	<b><u>622,413</u></b>	<b><u>982,937</u></b>

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, 2016**

	<b>Total for All Funds (Memo Only)</b>	<b>Customer Deposits</b>	<b>Developer Deposit</b>	<b>Pacific Court</b>	
308	Beginning Cash and Investments	131,237	5,160	67,956	49,767
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	-	-	-	-
380-390	Other Increases and Financing Sources	718,013	-	22,490	549,799
510-570	Expenditures	-	-	-	-
580-590	Other Decreases and Financing Uses	732,280	-	27,450	558,654
	Net Increase (Decrease) in Cash and Investments:	(14,267)	-	(4,960)	(8,855)
508	Ending Cash and Investments	116,970	5,160	62,996	40,912

**Algona Court**

308	Beginning Cash and Investments	8,354
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	145,724
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	146,176
	Net Increase (Decrease) in Cash and Investments:	(452)
508	Ending Cash and Investments	7,902

*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, 2015**

	<b>Total for All Funds (Memo Only)</b>	<b>Customer Deposits</b>	<b>Developer Deposit</b>	<b>Pacific Court</b>	
308	Beginning Cash and Investments	114,479	5,160	54,371	50,797
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	-	-	-	-
380-390	Other Increases and Financing Sources	661,066	-	27,360	445,540
510-570	Expenditures	-	-	-	-
580-590	Other Decreases and Financing Uses	644,307	-	13,775	446,569
	Net Increase (Decrease) in Cash and Investments:	16,759	-	13,585	(1,029)
508	Ending Cash and Investments	131,238	5,160	67,956	49,768

**Algona Court**

308	Beginning Cash and Investments	4,151
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	188,166
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	183,963
	Net Increase (Decrease) in Cash and Investments:	4,203
508	Ending Cash and Investments	8,354

*The accompanying notes are an integral part of this statement.*

CITY OF PACIFIC  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016

INTRODUCTION:

The City of Pacific is located on the King-Pierce county line approximately 5 miles east of the City of Tacoma and 20 miles south of the City of Seattle. The City of Pacific is in the southern end of the Kent Valley, which is a transportation corridor served by State Route 167. The City of Pacific currently encompasses an area of approximately 3.79 square miles.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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.
- 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.

The City of Pacific was incorporated in 1909, and operates under the laws of the State of Washington applicable to a code city with a Mayor-Council form of government. The City of Pacific is a general purpose government and provides water, sewer, law enforcement, street maintenance, storm water facilities, and community development, and senior and youth services. The City of Pacific uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City of Pacific are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Pacific's resources are allocated to and accounted for in individual funds depending on their intended purpose. Those funds established for management purposes have been consolidated in the reported statements and schedules, as follows:

General (current expense) Fund – includes:	Funds 001, 098, and 99
Special Revenue Funds	Funds 101, 107
Capital Project Funds	Funds 300, 301, 305, 308, 309, 310, 333
Water Utility Fund	Funds 401,406,411,499
Sewer Utility Fund	Funds 402,408,499
Storm Water Utility Fund	Funds 409,410,499

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	4,582,136.53	17,863.47
General Equip. Reserve	185,000	149,835.35	35,164.65
General Cumulative Reserve	0	0	0
Street Fund	550,000	422,360.08	127,639.92
Tourism	20,000	10,364.83	9,635.17
LID 3 Redemption	1,536.92	0	1,536.92
LID 3 Reserve	0	0	0
LID 6 Redemption	4,300,000	0	4,300,000.00
Municipal Capital Improvements	100,000	64,820.02	35,179.98
Roads Capital Improvements	200,000	198,275.00	1,725.00
Parks Capital Improvements	50,000	25,898.83	24,101.17
Valentine Road Projects	100,000	7,823.78	92,176.22
West Valley Road Project	125,000	87,813.66	37,186.34
Stewart/Thornton Ave Projects	325,000	302,851.42	22,148.58
Fire Capital Improvements	15,000	62.52	14,937.48
Water O&M	1,350,000	1,240,562.07	109,437.93
Sewer O&M	2,250,000	2,023,777.04	226,222.96
Garbage	30,000	16,306.85	13,693.15
Water Capital Improvements	1,600,000	1,502,680.98	97,319.02
Sewer Cumulative	100,000	539.45	99,460.55
Stormwater	850,000	845,226.94	4,773.06
Stormwater Facility	100,000	96,556.72	3,443.28
Pierce County/Webstone	150,000	99,394.90	50,605.10
Utilities Equip Reserve	275,000	208,825.95	66,174.05
Developer Deposit	50,000	27,450.00	22,550.00
Pacific Court	25,000	9,307.78	15,692.22
Algona Court	200,000	146,175.61	53,824.39

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. Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years.

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 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.

I. Reserved Fund Balance

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

107 – Tourism	\$119,482.48
300 – Municipal Capital	\$601,658.89
301 – Roads Capital Improvement	\$289,146.63
305 – Parks Capital Improvement	\$ 97,278.61
333 – Fire Capital Improvement	\$ 85,473.45

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.

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 name.

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.

The investments are presented at cost. Investments by type at December 31, 2016 are as follows

Type of Investment	City's Own Investments	Investments held by the City as an agent for other local governments, individuals of private organizations	Total
LGIP	\$ 1,063,199.61		\$1,063,199.61
CD	\$33,922.89		\$33,922.89
Bond Investments	\$4,598,767.96		\$4,598,767.96
<b>TOTALS</b>	<b>\$5,695,890.46</b>		<b>\$5,695,890.46</b>

**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 2016 was 1.53111 per \$1,000 on an assessed valuation of \$609,373,776 or a total regular levy of \$933,017.

**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 2016. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

	General Obligation Debt	Revenue Debt	Total Debt
2017	28,619.91	405,928.18	434,548.09
2018	0	403,430.13	403,430.13
2019	.00	324,034.21	324,034.21
2020	.00	320,388.27	320,388.27
2021		316,742.36	316,742.36
2022 – 2026		853,937.03	853,937.03
2027 – 2031		682,294.81	682,294.81
2032 – 2036		132,522.67	132,522.67
<b>Totals</b>	<b>28,619.91</b>	<b>3,439,277.66</b>	<b>3,467,897.57</b>

	Principal	Interest	Total
2017	398,227.77	36,320.32	434,548.09
2018	370,226.46	33,203.67	403,430.13
2019	295,575.55	28,458.66	324,034.21
2020	295,939.11	24,449.16	320,388.27
2021	296,317.97	20,424.63	316,742.36
2022 – 2026	792,840.47	61,096.56	853,937.03
2027 – 2031	656,052.70	26,242.11	682,294.81
2032 - 2036	131,210.56	1,312.11	132,522.67
<b>Totals</b>	<b>3,236,390.59</b>	<b>231,507.22</b>	<b>3,467,897.57</b>

**NOTE 6 – PENSION PLANS**

A. State Sponsored Pension Plans

Substantially all 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 full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement Systems;

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](http://www.drs.wa.gov).

At June 30, 2016 (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:

	Allocation %	Liability (Asset)
PERS 1	0.011996%	\$644,242
PERS 2/3	0.015351%	\$772,911
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	0.029698%	(\$172,732)
VFFRPF		

LEOFF Plan 1

The City of Pacific does not participate 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 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 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 December 31, 2014 the Finance Director closed out the Youth (003), Senior (004) Parks (005 & 006) and the Police funds (021 & 022) and rolled them into the General Fund (001) as departments along with creating the Parks Capital Fund (305). These “funds” were never created by City Ordinance or Resolution and the State Auditors rolled them up every year into the General Fund. The Finance Director directed by the City Council and RCW 35.54.095 transferred funds from the LID 3 Redemption Fund (206), the LID Reserve Fund (207) and the 2000 Fire GO Bond Fund (208) to the General Fund in the final Budget Amendment.

e. 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 continued to conduct business. As of January 1, 2014 the City has joined with AWC to gain acceptance to their Risk Management Service Agency (RMSA).

f. The City entered into a settlement agreement with CPM Development Corporation d/b/a ICON in the amount of \$1,125,000 on an outstanding claim against the Valentine Capital Road Project. This settlement allows the City to move forward with the proposed LID 6 in 2018.

g. Utility revenue bond issuance. The City of Pacific (the “City”) owns and operates a waterworks utility system and maintains a sanitary sewer system. The water and sewer system are in need of improvements and betterments, including improvements to water meters, a pump station and installment of a Public Works building (the “Projects”). The City has determined to combine the water supply and distribution system with the sanitary sewage disposal system (together, the “System”) solely for the purpose of paying and securing revenue bonds, as is permitted by state law. The water system and sewer system will continue to be separate for all other purposes, e.g., accounting and rate setting. The City plans to issue its water and sewer revenue bonds (the “Bonds”) to finance the Projects. The Bonds are expected to be paid from water and sewer revenues. This ordinance combines the System, and authorizes the City to issue the Bonds. The amount of the bond issuance is \$3,311,000. The bank waived the establishment of a reserve amount (fund) on this issuance. The rate is 2.94% and is on a 15 year repayment schedule.

CITY OF PACIFIC  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

INTRODUCTION:

The City of Pacific is located on the King-Pierce county line approximately 5 miles east of the City of Tacoma and 20 miles south of the City of Seattle. The City of Pacific is in the southern end of the Kent Valley, which is a transportation corridor served by State Route 167. The City of Pacific currently encompasses an area of approximately 3.79 square miles.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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.
- 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.

The City of Pacific was incorporated in 1909, and operates under the laws of the State of Washington applicable to a code city with a Mayor-Council form of government. The City of Pacific is a general purpose government and provides water, sewer, law enforcement, street maintenance, storm water facilities, and community development, and senior and youth services. The City of Pacific uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

Financial transactions of the City of Pacific 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 accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Pacific'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. The following fund types are used:

General (current expense) Fund – includes:

	Funds 001, 098, and 99
Special Revenue Funds	Funds 101, 107
Debt Service Funds	Funds 206,207,208
Capital Project Funds	Funds 300,301, 305, 308, 309, 310, 333
Water Utility Fund	Funds 401,406,411,499
Sewer Utility Fund	Funds 402,408,499
Storm Water Utility Fund	Funds 409,410,499

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 government 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 on behalf of others in a custodial 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	4,623,088	4,445,357	177,731
General Equip. Reserve	177,500	175,845	1,655
General Cumulative Reserve	0	0	0
Street Fund	422,402	329,228	93,174
Tourism	1,500	1471	29
LID 3 Redemption	0	0	0
LID 3 Reserve	0	0	0
2000 Fire GO Bond	0	0	0
Municipal Capital Improvements	400,000	400,000	0
Roads Capital Improvements	291,600	104,066	187,534
Parks Capital Improvements	9,972	4,316	5,656
Valentine Road Projects	977,200	243,355	733,845
West Valley Road Project	215,000	187,590	27,410
Stewart/Thornton Ave Projects	2,737,500	2,562,062	175,438
Fire Capital Improvements	0	0	0
Water O&M	1,213,375	1,160,309	53,066
Sewer O&M	2,171,473	2,087,572	83,901
Garbage	19,850	19,740	110
Water Capital Improvements	3,071,291	365,529	2,705,762
Sewer Cumulative	309,250	0	309,250
Stormwater	1,483,370	641,428	841,942
Stormwater Facility	56,500	30	56,470
Pierce County/Webstone	20,000	20,000	0

Utilities Equip Reserve	125,000	86,221	38,779
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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. Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years.

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 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.

#### I. Reserved Fund Balance

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

107 – Tourism	\$110,034.61
305 – Parks Capital	\$113,743.61
333 – Fire Capital Fund	\$ 76, 197.31

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.

#### 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.

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.

The investments are presented at cost. Investments by type at December 31, 2015 are as follows:

Type of Investment	City’s Own Investment	Investments held by the City as an agent for other local governments, individuals of private organizations	Total
LGIP	2,055,114.93		2,055,114.93
CD’s	33,897.15		33,897.15
Bond Investments	3,608,077.68		3,608,077.68
Totals	5,697,089.76		5,697,089.76

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 2015 was 1.61140 per \$1,000 on an assessed valuation of \$566,339,404 or a total regular levy of \$912,597.

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 2015. The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

	Principal	Interest	Total
2016	349,375.53	30,453.60	379,829.16
2017	354,104.75	27,547.26	381,652.04
2018	326,103.44	23,844.86	349,948.33
2019	251,452.53	20,411.95	271,864.51
2020	251,816.10	17,714.56	269,530.69
2021 – 2025	737,332.84	58,345.03	795,677.78
2026 – 2030	435,437.65	51,613.85	487,051.65
2031 - 2035	174,175.02	10,322.77	97,410.33
Totals	2,879,797.90	240,253.88	3,032,964.49

	General Obligation Debt	Revenue Debt	Total Debt
2016	28,619.91	351,209.25	379,829.16
2017	28,619.91	353,032.13	381,652.04
2018	0	349,948.33	349,948.33
2019	.00	271,864.51	271,864.51
2020	.00	269,530.69	269,530.69
2021 – 2025		795,677.78	795,677.78
2026 – 2030		487,051.65	487,051.65
2031 – 2035		97,410.33	97,410.33
Totals	57,239.82	2,975,724.67	3,032,964.49

NOTE 6 – PENSION PLANS

A. State Sponsored Pension Plans

Substantially all 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 full-time and qualifying part-time employees participate in the Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement Systems;

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](http://www.drs.wa.gov).

At June 30, 2015, the City of Pacific’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	%0.011532	\$603,231
PERS 2/3	%0.014899	\$532,350
SERS 2/3		
PSERS 2		
LEOFF 1		
LEOFF 2	%0.027262	(\$39,958.08)
VFFRPF		

#### LEOFF Plan 1

The City of Pacific 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 Pacific 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 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 December 31, 2014 the Finance Director closed out the Youth (003), Senior (004) Parks (005 & 006) and the Police funds (021 & 022) and rolled them into the General Fund (001) as departments along with creating the Parks Capital Fund (305). These “funds” were never created by City Ordinance or Resolution and the State Auditors rolled them up every year into the General Fund. The Finance Director directed by the City Council and RCW 35.54.095 transferred funds from the LID 3 Redemption Fund (206), the LID Reserve Fund (207) and the 2000 Fire GO Bond Fund (208) to the General Fund in the final Budget Amendment.
- e. 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 continued to conduct business. As of January 1, 2014 the City has joined with AWC to gain acceptance to their Risk Management Service Agency (RMSA).

**City of Pacific  
Schedule of Liabilities  
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
263.51	Police Patrol Cars	6/1/2017	56,113	-	27,775	28,338
	<b>Total General Obligation Debt/Liabilities:</b>		<b>56,113</b>	<b>-</b>	<b>27,775</b>	<b>28,338</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.86	SRF Water Loan #01-65101-018	10/1/2022	957,514	-	136,788	820,726
263.86	SRF Loan 00-65120-0020	10/1/2021	112,798	-	18,800	93,998
263.86	Ecology Stormwater Plan	7/15/2021	47,885	-	3,925	43,960
263.88	PWTF - Valentine/Thornton Ave	6/1/2018	225,000	-	75,000	150,000
263.88	PWTF - Stewart/Valentine Water Main	6/1/2033	1,480,488	705,968	87,088	2,099,368
264.30	Pension Liabilities		1,135,581	281,571	-	1,417,152
259.12	Compensated Absences		463,691	-	46,133	417,558
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>4,422,957</b>	<b>987,539</b>	<b>367,734</b>	<b>5,042,762</b>
	<b>Total Liabilities:</b>		<b>4,479,070</b>	<b>987,539</b>	<b>395,509</b>	<b>5,071,100</b>

**City of Pacific  
Schedule of Liabilities  
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
263.51	Patrol Cars	6/1/2017	83,338	-	27,225	56,113
	<b>Total General Obligation Debt/Liabilities:</b>		<b>83,338</b>	<b>-</b>	<b>27,225</b>	<b>56,113</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.82	SRF Water Loan #01-65101-018	10/1/2022	1,094,302	-	136,788	957,514
263.82	Water Corrosion	10/1/2021	131,598	-	18,800	112,798
263.82	Ecology Stormwater Plan	7/15/2021	55,500	-	7,615	47,885
259.12	Absences		407,500	56,191	-	463,691
263.82	Stewart/Valentine Water Main	6/1/2032	466,607	1,048,363	34,482	1,480,488
263.82	Stewart/Thornton Improvements	6/1/2018	300,000	-	75,000	225,000
264.30	Pension Liabilities		-	1,135,581	-	1,135,581
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>2,455,507</b>	<b>2,240,135</b>	<b>272,685</b>	<b>4,422,957</b>
	<b>Total Liabilities:</b>		<b>2,538,845</b>	<b>2,240,135</b>	<b>299,910</b>	<b>4,479,070</b>

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>