



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Port Townsend

Jefferson County

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

Published September 1, 2016

Report No. 1017340





Washington State Auditor's Office

September 1, 2016

Mayor and City Council
City of Port Townsend
Port Townsend, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Port Townsend's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Port Townsend
Jefferson County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Port Townsend are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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 Port Townsend
Jefferson County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Port Townsend
Port Townsend, 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 Port Townsend, Jefferson County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 25, 2016.

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

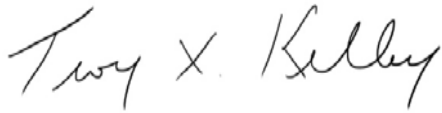
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" in the middle.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 25, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Port Townsend
Jefferson County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Port Townsend
Port Townsend, Washington

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

We have audited the compliance of the City of Port Townsend, Jefferson County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

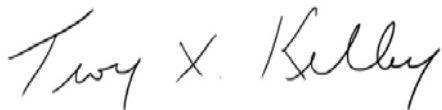
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large initial 'T' and 'K'.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

August 25, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Port Townsend Jefferson County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Port Townsend
Port Townsend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Port Townsend, Jefferson County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 15.

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 Port Townsend 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 Port Townsend, for the year ended December 31, 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 Port Townsend, as of December 31, 2015, 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.

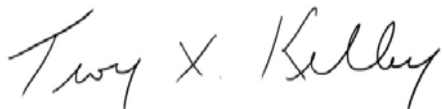
Other Matters

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 Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also 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 August 25, 2016 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

August 25, 2016

FINANCIAL SECTION

**City of Port Townsend
Jefferson County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

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

		Total for All Funds (Memo Only)	010 General Fund	101 Drug Enforcement
Beginning Cash and Investments				
30810	Reserved	1,727,712	-	-
30880	Unreserved	6,620,033	722,067	557
388 & 588	Prior Period Adjustments, Net	702	-	-
Operating Revenues				
310	Taxes	10,921,905	5,408,986	-
320	Licenses and Permits	461,926	461,464	-
330	Intergovernmental Revenues	2,212,244	251,168	-
340	Charges for Goods and Services	8,809,536	84,491	-
350	Fines and Penalties	74,415	63,786	-
360	Miscellaneous Revenues	393,581	48,986	-
Total Operating Revenues:		<u>22,873,607</u>	<u>6,318,881</u>	<u>-</u>
Operating Expenditures				
510	General Government	1,962,807	900,070	-
520	Public Safety	5,028,739	2,833,581	-
530	Utilities	4,766,355	-	-
540	Transportation	877,777	-	-
550	Natural and Economic Environment	1,026,478	728,604	-
560	Social Services	-	-	-
570	Culture and Recreation	1,986,565	18,634	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		<u>15,648,721</u>	<u>4,480,889</u>	<u>-</u>
Net Operating Increase (Decrease):		<u>7,224,886</u>	<u>1,837,992</u>	<u>-</u>
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	895,776	23,533	-
391-393	Debt Proceeds	6,263,397	-	-
397	Transfers-In	5,810,591	6,713	-
Total Nonoperating Revenues:		<u>12,969,764</u>	<u>30,246</u>	<u>-</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	731,732	23,654	-
591-593	Debt Service	3,003,968	-	-
594-595	Capital Expenditures	10,558,625	70,164	-
597	Transfers-Out	5,801,897	1,520,109	-
Total Nonoperating Expenditures:		<u>20,096,222</u>	<u>1,613,927</u>	<u>-</u>
Net Increase (Decrease) in Cash and Investments:		<u>98,428</u>	<u>254,311</u>	<u>-</u>
Ending Cash and Investments				
5081000	Reserved	1,259,860	-	-
5088000	Unreserved	7,187,015	976,378	557
Total Ending Cash and Investments		<u>8,446,875</u>	<u>976,378</u>	<u>557</u>

The accompanying notes are an integral part of this statement.

102 Contingency Fund	110 Street	120 Library	135 Real Estate Excise Tax Fund	150 Lodging Tax	171 Fire and EMS
-	-	-	-	-	-
145,721	111,334	161,323	40,408	120,843	25,568
-	-	-	-	-	-
4,000	557,530	1,007,315	537,694	443,859	2,389,071
-	462	-	-	-	-
-	197,128	7,336	-	-	-
-	5,300	-	-	-	-
-	-	10,629	-	-	-
155	2,229	28,226	207	-	314
<u>4,155</u>	<u>762,649</u>	<u>1,053,506</u>	<u>537,901</u>	<u>443,859</u>	<u>2,389,385</u>
-	-	-	-	21,030	-
-	-	-	-	-	2,195,158
-	-	-	-	-	-
-	493,425	-	-	-	-
-	-	-	-	247,513	-
-	-	-	-	-	-
-	-	959,149	-	-	-
-	-	-	-	-	-
-	<u>493,425</u>	<u>959,149</u>	<u>-</u>	<u>268,543</u>	<u>2,195,158</u>
<u>4,155</u>	<u>269,224</u>	<u>94,357</u>	<u>537,901</u>	<u>175,316</u>	<u>194,227</u>
-	-	100	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	187,082
-	-	103,928	-	32,349	-
-	184,870	-	510,000	106,713	-
-	<u>184,870</u>	<u>103,928</u>	<u>510,000</u>	<u>139,062</u>	<u>187,082</u>
<u>4,155</u>	<u>84,354</u>	<u>(9,471)</u>	<u>27,901</u>	<u>36,254</u>	<u>7,145</u>
-	-	-	-	-	-
149,876	195,688	151,852	68,309	157,097	32,713
<u>149,876</u>	<u>195,688</u>	<u>151,852</u>	<u>68,309</u>	<u>157,097</u>	<u>32,713</u>

The accompanying notes are an integral part of this statement.

180 Affordable Housing Fund	190 Community Dev Block Grants	199 Community Services	200 G.O. Debt Service	301 General CIP Projects	411 Water Sewer Fund
-	-	-	-	-	1,727,712
30,626	152,445	50,406	5,070	395,569	3,616,857
-	-	-	-	-	702
10,000	-	461,450	102,000	-	-
-	-	-	-	-	-
-	39,507	-	-	1,680,724	3,968
-	-	112,807	-	-	6,136,343
-	-	-	-	-	-
36	160	38,973	590	432	270,112
10,036	39,667	613,230	102,590	1,681,156	6,410,423
-	-	355,698	1,582	-	439,547
-	-	-	-	-	-
-	-	-	-	-	3,201,391
-	-	-	-	-	-
-	50,361	-	-	-	-
-	-	-	-	-	-
-	-	1,008,782	-	-	-
-	-	-	-	-	-
-	50,361	1,364,480	1,582	-	3,640,938
10,036	(10,694)	(751,250)	101,008	1,681,156	2,769,485
-	-	16,680	-	630,430	224,033
-	-	-	-	4,245,737	2,017,660
-	-	805,000	2,304,267	1,559,210	1,085,401
-	-	821,680	2,304,267	6,435,377	3,327,094
-	-	15,137	-	-	691,491
-	-	-	2,345,161	45,660	426,065
-	-	-	-	4,750,817	5,336,782
-	-	-	-	2,419,804	1,060,401
-	-	15,137	2,345,161	7,216,281	7,514,739
10,036	(10,694)	55,293	60,114	900,252	(1,418,160)
-	-	-	-	-	1,259,860
40,662	141,751	105,699	65,184	1,295,821	2,667,251
40,662	141,751	105,699	65,184	1,295,821	3,927,111

The accompanying notes are an integral part of this statement.

412 Storm Fund	500 Equipment Rental	540 PW Admin	555 Engineering Services	595 Unemployment Self-Insurance
-	-	-	-	-
235,971	713,670	19,856	46,742	25,000
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
32,413	-	-	-	-
509,329	755,628	322,138	883,500	-
-	-	-	-	-
238	2,837	9	51	26
<u>541,980</u>	<u>758,465</u>	<u>322,147</u>	<u>883,551</u>	<u>26</u>
-	244,520	-	-	360
-	-	-	-	-
444,500	-	305,515	814,949	-
-	384,352	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>444,500</u>	<u>628,872</u>	<u>305,515</u>	<u>814,949</u>	<u>360</u>
<u>97,480</u>	<u>129,593</u>	<u>16,632</u>	<u>68,602</u>	<u>(334)</u>
-	-	1,000	-	-
-	-	-	-	-
-	50,000	-	-	-
<u>-</u>	<u>50,000</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
-	10	-	1,440	-
-	-	-	-	-
198,847	63,909	-	1,829	-
-	-	-	-	-
<u>198,847</u>	<u>63,919</u>	<u>-</u>	<u>3,269</u>	<u>-</u>
(101,367)	115,674	17,632	65,333	(334)
-	-	-	-	-
134,604	829,344	37,488	112,075	24,666
134,604	829,344	37,488	112,075	24,666

The accompanying notes are an integral part of this statement.

City of Port Townsend
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	601 Refundable Deposits	610 Firemen's Pension	613 Court-Agency
308	Beginning Cash and Investments	350,734	90,466	213,021	11,604
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	48,691	91	35,253	-
380-390	Other Increases and Financing Sources	255,933	4,900	-	251,033
510-570	Expenditures	34,545	-	33,437	-
580-590	Other Decreases and Financing Uses	163,549	14,952	-	134,887
Net Increase (Decrease) in Cash and Investments:		106,530	(9,961)	1,816	116,146
508	Ending Cash and Investments	457,264	80,505	214,837	127,750

		621 Memorial	623 Golf Course Fund
308	Beginning Cash and Investments	12,049	23,594
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	13,347
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	-	1,108
580-590	Other Decreases and Financing Uses	9,500	4,210
Net Increase (Decrease) in Cash and Investments:		(9,500)	8,029
508	Ending Cash and Investments	2,549	31,623

The accompanying notes are an integral part of this statement.

City of Port Townsend **Notes to the Financial Statements** **For the Year Ended December 31, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Port Townsend was incorporated on January 16, 1860 and operates under the laws of the State of Washington applicable to a non-charter code city. The city is a general purpose local government and provides police and fire protection, water, sewer, storm drainage, as well as maintaining parks, streets, and a library for use by its citizens.

The City of Port Townsend 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.

A. Fund Accounting

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

The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund (Fund 010):

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

Special Revenue Funds (Funds in the 100 series):

These funds account for specific revenue sources derived from specific taxes, grants or other sources, which are restricted or committed to expenditures for specified purposes of the city.

(Note: In prior years, the City has reported its System Development Charge Fund in the 100 series. In 2014, this fund was reassigned as a proprietary fund (400 series) as this fund was created to fund water and wastewater capital improvements and replacements.)

Debt Service Funds (Funds in the 200 series):

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

Capital Projects Funds (Funds in the 300 series):

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

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds (Funds in the 400 series):

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. (Note: In prior years, the City has reported its System Development Charge Fund in the 100 series. In 2014, this fund was reassigned as an enterprise fund (400 series) as this fund was created to fund water and wastewater capital improvements and replacements.)

Internal Service Funds (Funds in the 500 series):

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

FIDUCIARY FUND TYPES:

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

Refundable Deposits (Fund 601):

This fund accounts for deposits being held pending city criteria for builders being fulfilled.

Pension (and Other Employee Benefit) Trust Funds (Fund 610):

This fund is used to account for financial resources to pay retiree benefits related to the Fire Fighters' Retirement System (Firemen's Pension).

Agency Funds (Funds 613 – 699):

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

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid, including those properly chargeable against the prior year(s) budget appropriations as required by state law.

In accordance with state law the city 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.

C. Budgets

The city adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

FISCAL YEAR 2015			
	Final Appropriated Amounts	Actual Expenditures	Variance
General	\$ 7,396,202	\$ 7,281,959	\$ 114,243
Street	\$ 703,650	\$ 678,295	\$ 25,355
Library	\$ 1,064,944	\$ 1,063,079	\$ 1,865
Real Estate Excise Tax Fund	\$ 510,000	\$ 510,000	\$ -
Lodging Tax	\$ 433,030	\$ 407,605	\$ 25,425
Fire & EMS Service	\$ 2,384,803	\$ 2,382,240	\$ 2,563
Affordable Housing Fund			\$ -
Community Development Block Grants	\$ 60,000	\$ 50,361	\$ 9,639
Community Services	\$ 1,429,050	\$ 1,379,617	\$ 49,432
GO Debt Service	\$ 2,350,181	\$ 2,346,741	\$ 3,440
Capital Improvement	\$ 8,586,618	\$ 7,214,932	\$ 1,371,685
Water/Sewer Utility	\$ 4,412,974	\$ 4,308,593	\$ 104,381
Utility Construction Fund	\$ 7,870,497	\$ 5,577,713	\$ 2,292,784
Trans line Replacement	\$ 838,530	\$ 828,873	\$ 9,657
1978 Water Sewer Rev Bond	\$ 24,000	\$ 24,000	\$ -
Water Capital Debt Reserve	\$ -	\$ 300,297	\$ (300,297)
Storm water	\$ 644,118	\$ 643,348	\$ 770
Equipment Rental	\$ 710,408	\$ 692,793	\$ 17,615
Public Work & Admin	\$ 308,792	\$ 305,516	\$ 3,276
Engineering Service Fund	\$ 826,679	\$ 818,218	\$ 8,461
System Development Charges	\$ 230,000	\$ 116,193	\$ 113,807
Unemployment Self Insurance	\$ 500	\$ 360	\$ 140
Firemen's Pension	\$ 37,394	\$ 33,437	\$ 3,957
Court Agency Funds	\$ 133,709	\$ 159,339	\$ (25,631)
Golf Course Fund	\$ 6,710	\$ 5,318	\$ 1,392
TOTAL	\$ 40,962,788	\$ 37,128,828	\$ 3,833,960

Budgeted amounts are authorized to be transferred 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 council.

D. Cash and Investments

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

All deposits are covered by the Federal Deposit Insurance Corporation and/or by collateral held in a multiple financial institution pool administered by the Washington Public Deposit Protection Commission.

The city's investments are insured, registered, or held by the city or its agent in the city's name. As required by state law, all investments of the city's funds are obligations of the U.S. Government, the Washington State Treasurer's Investment Pool, or deposits with Washington State banks and savings and loan institutions.

Investments are reported at fair value. Investment activity for the year ending December 31, 2015 is listed below:

City of Port Townsend		
State of Washington		
Local Government Investment Pool		
1/1/2015 Beginning Balance		\$6,444,672
Gross Investment Earnings	\$ 11,188	
Administrative Fees	<u>(597)</u>	
Net Investment Earnings		10,591
Deposits	\$ -	
Withdrawals	<u>-</u>	
		-
12/31/2015 Ending Balance (Market Value)		<u>\$6,455,263</u>

E. Capital Assets

The city is responsible for stewardship of public resources and as such, has policies and procedures in place to track, demonstrate accountability, and insure security of all assets.

Operating under a cash basis, capital assets and inventory are recorded as capital expenditures when purchased; because the entire expenditure is recognized in the period when the cash outflow occurs, the reporting of depreciation accounts is not appropriate.

Capital Improvements are defined as projects to create, expand, or modify a capital facility. The project may include design permitting, environmental analysis, land acquisition, construction, landscaping, site improvements, initial furnishings, and equipment. The project cost must exceed \$15,000 and have a useful life of five years.

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours for regular employees and 360 hours for department heads. Vacation leave is payable upon separation or retirement. Sick leave may be accumulated up to 1,440 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Expenditures related to leave are recognized when paid. The compensated absence balances increased by \$3,619 from 2014 to 2015, ending at \$439,039 for the year.

G. Long-Term Debt

See Note 4.

H. Other Financing Sources or Uses

The city's Other Financing Sources or Uses consist of operating transfers-in, operating transfers-out, special assessment bond proceeds, and proceeds from refunding bonds.

I. Risk Management

See Note 6.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council through a formal action (e.g. ordinance or resolution). When expenditures that meet restrictions are incurred, the city intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist as of December 31, 2015 are \$1,259,860. These funds were reserved by Trust in 1956 for system replacement or improvements related to the Olympic Gravity Water System Pipeline (Ordinance 1321).

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions. No City of Port Townsend funds made expenditures in excess of legal appropriations.

NOTE 3 – PROPERTY TAXES

The Jefferson County Treasurer acts as agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the total collected surpasses \$10,000; with any balance left over distributed at month-end.

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

The city's regular levy for 2015 was \$1.66940 per \$1,000 on assessed valuation of \$1,299,381,068 for a total regular levy of \$2,169,187.39.

A Library LID lift was approved by voters in 2008 to be phased in over 2009-2011. For 2015 the library levy was \$0.77421 per \$1,000 for a total of \$1,006,000.00.

Voters approved a Fire LID lift in 2012. For 2015 the Fire LID lift was \$0.51206 per \$1,000 for a tax amount of \$665,366.06.

The city also has a special levy for Emergency Medical Services (EMS). The EMS levy rate was voter approved in 2010 to \$0 .50 per \$1,000 for a total levy of \$649,690.53 in 2015.

In 2015, voters approved a tax levy for improvements to the Mountain View Commons. The tax levy pays for the debt service on the bonds issued to make these improvements. The levy rate for 2015 was \$0.05 per \$1,000 of assessed property value.

NOTE 4 – LONG TERM DEBT

The accompanying schedule of Long Term Liabilities (Schedule 09) provides a listing of the outstanding debt of the city and summarizes the City of Port Townsend’s debt transactions for Calendar Year 2015. The debt services payments for the year being reported and future payment requirements, including interest, are listed in the table below. In addition to the debt service payments noted below, the City made an intergovernmental loan payment to East Jefferson Fire & Rescue (see note 10).

DEBT SERVICE SCHEDULE					
Year	G.O. Bonds	G.O. Bond Anticipation Line of Credit	Revenue Bonds	Other Debt	Total Long Term Debt
2015	\$1,184,345	\$1,206,475	\$24,000	\$402,056	\$2,816,876
2016	\$1,468,799	\$0	\$23,000	\$522,621	\$2,014,420
2017	\$1,582,565	\$0	\$22,000	\$662,028	\$2,266,593
2018	\$1,585,000	\$0	\$21,000	\$615,195	\$2,221,195
2019	\$1,585,750	\$0	\$0	\$566,693	\$2,152,443
2020-2024	\$7,842,660	\$0	\$0	\$2,193,328	\$10,035,988
2025-2029	\$6,862,238	\$0	\$0	\$1,571,993	\$8,434,230
2030-2034	\$4,339,875	\$0	\$0	\$915,745	\$5,255,620
2035-2038	\$2,695,750	\$0	\$0	\$150,900	\$2,846,650
Total	\$29,146,982	\$1,206,475	\$90,000	\$7,600,557	\$38,044,014

A. Bonds

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

In 2008 the City issued \$7,500,000 in Limited General Obligation Bonds to finance road and sidewalk improvements, as well as tourism, infrastructure, and waterfront access improvements. In 2010 the City issued an additional \$3,740,000 in bonds for sidewalks, utilities and street improvements, as well as funding for the Carnegie Library seismic retrofit. In 2012 the City refunded the balance of the 1999

General Obligation Bonds and the 2005 General Obligation Bonds. As part of the same financing, \$1,505,000 of the 2003 Bonds were advance refunded as well as \$2,500,000 of the 2002 Bonds.

In 2014, the City Council authorized a Limited General Obligation Bond Anticipation Note (BAN) for \$1,500,000. On December 3, 2014, the City executed a line of credit with Cashmere Valley Bank totaling \$1,200,000. The BAN line of credit interest rate is a variable rate tied to the LIBOR (London Interbank Offered Rate) and is calculated as 65% of the 3 month LIBOR rate plus 1.05%. The city paid off the draw of \$1,200,000 in July 2015 along with interest payments of \$6,475.23. The rate as of 12/29/2015 was 1.267133%. The maturity date of the line of credit is December 1, 2017.

In 2015, the City issued \$3,385,000 in voter approved Unlimited Tax General Obligation bonds to finance energy retrofits, building improvements at city facilities located at Mountain View Commons, which houses municipal services and social and public service organizations, and other general capital project costs. The bond is being repaid by a voted property tax assessment and other City tax receipts.

General Obligation Debt currently outstanding as of December 31, 2015 is as follows:

G.O. LONG TERM OUTSTANDING DEBT					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
2008	Limited G.O. Bonds for construction funds for civic and street improvements	\$7,500,000	4.15 - 5.00%	12/1/2038	\$7,500,000
2010	Limited G.O. Bonds for street, sidewalk, utilities and historic district	\$3,740,000	2.30 - 5.00%	12/1/2030	\$3,740,000
2012	Limited G.O. Bonds for refunding of 1999 Bonds, a portion of the 2002 G.O. Bonds, and a portion of the 2005 G.O. Bonds	\$5,530,000	.50 - 4.25%	12/1/2025	\$4,110,000
2014	Limited G.O. Bond Anticipation Note (Line of Credit) for capital improvements at the Mountain View campus and other general capital project costs	\$1,500,000	Variable rate tied to Libor index (65% of 3 month Libor plus 1.05%, rate as of 12/31/2015 - 1.267133%	12/1/2017	\$0
2015	Voted Unlimited G.O. Bonds for energy retrofits and capital improvements at the Mountain View campus and other general capital projects	\$3,385,000	2.0% - 4.0%	12/1/2031	\$3,385,000
Total					\$18,735,000

Proprietary Long Term Debt currently outstanding as of December 31, 2015 is as follows:

PROPRIETARY LONG TERM DEBT					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
1978	Water/Sewer Revenue Bonds for Water and Sewer Improvements	\$395,000	5.00%	12/1/2018	\$60,000

B.

C. Public Works Trust Fund Loans and State Revolving Fund Loans

State of Washington Public Works Trust Funds (PWTF) Loans are intergovernmental loans from the Public Works Board to undertake local public works projects. These loans are a direct responsibility of the City of Port Townsend. The City currently has seven such loans.

State Revolving Fund (SRF) Loans are State of Washington Department of Ecology low interest loans for projects that protect and improve water quality. The City of Port Townsend has two SRF loans.

The 2012 PWTF, 2012 DWSRF, and 2013 PWTF Loans have not drawn down the full loan amount available; the debt outstanding reflects current drawdowns less any principal payments.

The 2012 PWTF Loan for the Water Treatment Facility listed in the chart reflects an outstanding balance at the end of the year of \$1,790,742. The city authorized a draw on the loan on December 31, 2015 for \$161,386 but did not receive the funds until January 2016. Additionally, the 2013 PWTF Loan for the 5 MG Reservoir Replacement loan balance represents two authorized draws on December 31 2015 for \$534,708 but the funds were not received until January 2016. Schedule 9 of the City's annual report includes the 12/31/2015 draws on both of these loans but they are not included in Schedule 1 or the financial statements, as the City has adopted the cash basis of accounting. Schedule 9 also includes a loan fee applied to the loan balance for the 2014 DWSRF loan for the 5 MG Reservoir Replacement in the amount of \$68,277. The City did not receive the funds for the loan fee but are obligated to repay loan fees under the terms of the agreement. The schedule below includes the outstanding balance for all loans and loan draws, including the December 31, 2015 draws not received until January 2016.

As of December 31, 2015 the long-term debt payable for PWTF and SRF loans consisted of the following:

PUBLIC WORKS AND STATE REVOLVING FUND LOAN SCHEDULE					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
1998	PWTF Loan: CT Pipeline Tri-Area Water Storage, Tri-Area Well Upgrades	\$2,172,055	1.00%	12/1/2018	\$134,154
1999	PWTF Loan: Gaines Street Lift Station; San Juan Street Trunk Line	\$1,434,365	1.00%	12/1/2019	\$238,379
2001	PWTF Loan: Wastewater Treatment Outfall Expansion; Trunk Sewer Line Replacement	\$1,153,350	0.50%	12/1/2021	\$331,658
2002	PWTF Loan: Morgan Hill Water System Improvements	\$1,263,453	0.50%	12/1/2022	\$466,913
2005	SRF Loan: Dept of Ecology Loan: Wastewater Conveyance Storm and Sewer Separation; Gains Street Lift Station Phase II; Trunk Sewer Line Replacement	\$856,803	1.50%	9/8/2024	\$427,146
2012	PWTF Loan: City Lake Repair	\$1,000,000	0.50%	12/1/2031	\$842,105
2012	PWTF Loan: Mandated LT2 Water Treatment Facility	\$1,896,000	0.50%	12/1/2031	\$1,790,742
2012	DWSRF Loan: LT2 Federally Mandated Water Treatment Facility	\$3,071,521	1.50%	12/1/2036	\$1,475,790
2013	PWTF Loan: 5 MG Reservoir Replacement	\$5,000,000	0.50%	6/1/2032	\$949,143
2014	DWSRF Loan: Replacement for Primary 5MG Reservoir with Boost	\$6,896,007	1.50%	12/1/2034	\$68,277
Total					\$6,724,309

NOTE 5 – PENSION PLANS

A. State Sponsored Plans

Substantially all city full-time and qualifying part-time employees participated in Public Employee’s Retirement System (PERS), Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) Volunteer Firemen Relief and Pension Fund, Firemen’s Pension and Relief Fund administered by the Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution employee retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City’s financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by the plan.

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 publically 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
 Communication Unit
 PO Box 48380
 Olympia, WA 98504-8380

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

At June 30, 2015 (the measurement date of the plans), the city’s proportionate share of the collection net pension liabilities as reported on Schedule 09 was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.000740%	\$38,709
PERS 1 UAAL	0.038021%	\$1,988,852
PERS 2 / 3	0.049116%	\$1,754,943
<i>Total Net Pension Liability</i>		\$3,782,503

The city also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendation 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.

B. Local Government Pension Plans

The City of Port Townsend is also the administrator of a pension retirement system called Firemen’s Pension. The system is shown as a trust fund in the financial statements of the City of Port Townsend. As of December 31, 2015 there were a total of three individuals covered and drawing benefits under this system. None of these individuals were employed by the City in 2015. One individual previously covered under this plan expired in 2015.

As of December 31, 2015 the market value of assets was \$214,836.

NOTE 6 – RISK MANAGEMENT

The City of Port Townsend is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter local Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the inter-local, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

NOTE 7 – RESTRICTED BOND FUNDS

In accordance with bond ordinances and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service, and other special reserve requirements. As of December 31, 2015, the City has no restricted bond funds.

NOTE 8 – CONTINGENCIES AND LITIGATION

In the opinion of management, the City's insurance program (see Note 6) and self-insurance fund (see Note 11) are adequate to pay all known or pending claims.

NOTE 9 – INTERFUND LOANS

In April 2012, City Council authorized an inter fund loan from the Transmission Line Replacement Fund to the General Fund in the amount of \$100,000 for the purpose of startup funding for the Main Street excise tax program. In August 2015, the General Fund made a final payment of \$33,427 to pay off the balance of the loan with accrued interest.

In May 2013, the City Council authorized up to a million dollar inter fund loan from the Transmission Line Replacement Fund to the Water Capital Improvement Project fund for interim financing of designing the Ultraviolet Water Treatment Project. The loan was for design work and appropriate City engineering and overhead costs. As of December 31, 2015, the balance of the loan, \$161,250, was paid in full.

In November 2015, the City Council authorized an inter fund loan from the Transmission Line Replacement Fund to the Street Capital Fund to provide the matching funds necessary to provide matching funds for grants from the Transportation Improvement Board (TIB), Washington State Department of Transportation Surface Transportation Program (WSDOT STP), and Community Economic Revitalization Board (CERB). Loan financing of \$295,000 was used grant matching funds for the Howard Street Extension Project and the construction of Landes Street & Sheridan Street sidewalk projects. In the same resolution, the City Council authorized an inter fund loan in the amount of \$180,000 from the Transmission Line Replacement Fund to the General Capital Fund for financing energy savings improvements, equipment and software for various city buildings. These loans will be repaid by January 31, 2018.

Loan Reference	Borrowing Fund	Lending Fund	Balance 1/1/15	2015 Repayments	New Loans	Balance 12/31/2015
Maint Street	General (010)	Transmission Line (417)	\$33,427	\$33,427	\$0	\$0
LT2 Wtr Project	Water Capital (415)	Transmission Line (417)	\$161,250	\$161,250	\$0	\$0
Landes & Sheridan Street Sidewalks	Street Capital (305)	Transmission Line (417)	\$0	\$0	\$205,000	\$205,000
Howard Street Extension	Street Capital (305)	Transmission Line (417)	\$0	\$0	\$115,000	\$115,000
Honeywell Energy Project	General Capital (301)	Transmission Line (417)	\$0	\$0	\$180,000	\$180,000
		TOTAL	\$194,677	\$194,677	\$500,000	\$500,000

NOTE 10 – INTERLOCAL GOVERNMENT WITH EAST JEFFERSON FIRE RESCUE

On June 20, 2012 the City amended the agreement with East Jefferson Fire Rescue (District) to reimburse the district for the purchase of a third fire engine. The City has committed to pay the District a total of \$392,081 (which includes interest) for the fire engine. As of December 31, 2015, the outstanding debt service related to this agreement is \$182,359. The payment schedule is as follows:

EJFR PAYMENT SCHEDULE			
PAYMENT DATE	INTEREST	PRINCIPAL	TOTAL
5/15/2013	\$11,320	\$0	\$11,320
5/30/2014	\$11,320	\$0	\$11,320
5/15/2015	\$9,883	\$177,199	\$187,082
5/31/2016	\$2,615	\$179,744	\$182,359
		Total	\$392,081

NOTE 11 – SELF INSURANCE

The City of Port Townsend self-insures for unemployment through the State of Washington’s Employment Security Department. When a former employee files for and obtains unemployment coverage with the State of Washington, the City of Port Townsend is direct-billed their portion of the unemployment benefit costs.

In 2013, the City of Port Townsend established an Unemployment Self Insurance Fund. As of December 31, 2015 the fund had a balance of \$24,666 as compared to the prior year ending Fund balance of \$25,000.

NOTE 12 – MANAGEMENT FUNDS

To assist in managing the City of Port Townsend’s finances, the city has established management funds for accounting purposes. The management fund activities are rolled into one fund for reporting purposes.

The following funds include managerial fund activity that is reported in one fund:

- Water and Sewer Utility Fund
- General Government Capital Improvement Project Fund

NOTE 13 – POST EMPLOYMENT BENEFITS

The City of Port Townsend has a commitment to pay for post-employment benefits for employees that belong to LEOFF1 retirement system. These benefits include medical insurance premiums, out-of-pocket medical costs, and dental and vision care. Six police retirees and four Fire/EMS retirees and/or spouses received these benefits during the year and \$56,982 was paid out for those benefits.

NOTE 14 – CONSTRUCTION COMMITMENT

The City of Port Townsend has four active construction projects as of December 31, 2015. Total construction commitment as of the end of the year totaled \$14,481,180. A summary table of those commitments is below:

TABLE OF CONSTRUCTION COMMITMENTS - 2015					
PROJECT	CONTRACTOR	PROJECT PHASE	CONTRACT AMOUNT	PAID TO DATE	REMAINING CONTRACT
Water Treatment Phase II	HDR Engineering	Design	2,053,735	1,557,496	496,239
Water Treatment Phase II	Evoqua	Equipment Purchase	1,464,557	-	1,464,557
Water Treatment Phase II	Seton	Construction	1,336,983	612,141	724,842
Water Treatment Facility & 5 MG Reservoir	Steller J	Construction	13,039,670	1,753,701	11,285,969
5 MG Reservoir	HDR Engineering	Construction	578,887	427,157	151,730
Howard Street Extension	Berger ABAM	Design	786,806	428,963	357,843
		TOTAL	\$19,260,638	\$4,779,458	\$14,481,180

NOTE 15 – PRIOR YEAR ADJUSTMENTS

There was an immaterial fund balance adjustment of \$702 to the Water / Sewer fund.

NOTE 16 – SUBSEQUENT EVENTS

In February 2016, the City Council approved a bank line of credit with Kitsap Bank in the amount of \$3,000,000. The line of credit will fund interim financing needs for the Water Treatment Plant and 5 MG Reservoir, which began construction in 2015. Permanent financing for these projects is through multiple state and federal funding programs that are received on a reimbursement basis. The line of credit will allow the City to pay construction invoices per contract terms while awaiting reimbursement from state and federal programs.

NOTE 17 – OTHER FINANCIAL INFORMATION

The Fort Worden Public Development Authority (The Authority) was established by Ordinance 3108 enacted by the City on September 8, 2009. That Ordinance adopted the Authority's Charter, granting it the power to manage, promote, develop, secure funding, and enhance the Fort Worden State Park including undertaking, assisting with, and otherwise facilitating the implementation of a Lifelong Learning Center at the Park.

The Authority is a public corporation authorized under the provisions of RCW 35.21.735 – 35.21.759. It is a separate legal entity that is independent from the City. RCW 35.21.750 provides that "...liabilities incurred by such public corporation, commission, or authority shall be satisfied exclusively from the assets and properties of such public corporation, commission, or authority and no creditor or other person shall have any right of action against the city, town, or county creating such corporation, commission or authority on account of any debts, obligations, or liabilities of such public corporation, commission, or authority."

The Authority is governed by a Board of Directors. A nominating committee of the Authority solicits, reviews and recommends Board Members. As the Chartering Agency, the City appoints Board Members. The City Council also has the ability to remove Board members by resolution. The Authority maintains independent financial reports. Financial reports are provided annually to the City Manager and City Council and an independent audit is required annually.

In 2015, the City provided \$37,500 of support to the Authority from the Lodging Tax Fund (approved by the Lodging Tax Advisory Committee and the City Manager) to fund joint marketing of the Fort Worden Lifelong Learning Center and the City of Port Townsend. The City also paid \$500,000 to the Fort Worden Lifelong Learning Center in 2015. \$350,000 was provided from the City's General Capital Fund. The remaining \$150,000 was funded by state Public Infrastructure Funds via a pass through grant from Jefferson County.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2008 Bond	12/1/2038	7,500,000	-	-	7,500,000
251.11	2010 Bond	12/1/2030	3,740,000	-	-	3,740,000
251.11	2012 Refunding Bond	12/1/2025	4,610,000	-	500,000	4,110,000
263.91	2014 BAN Line of Credit	12/1/2017	600,000	600,000	1,200,000	-
251.22	2015 Bond	12/1/2031	-	3,385,000	-	3,385,000
263.83	EJFR Equipment Loan	5/31/2016	356,943	-	177,199	179,744
Total General Obligation Debt/Liabilities:			16,806,943	3,985,000	1,877,199	18,914,744
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability		-	3,782,503	-	3,782,503
252.11	1978 Water Revenue Bond	3/1/2018	80,000	-	20,000	60,000
263.82	DOE Wastewater	10/31/2023	471,157	-	44,011	427,146
263.82	1998 PWTF Loan Water	7/1/2018	178,872	-	44,718	134,154
263.82	1999 PWTF Loan Sewer	7/1/2019	297,974	-	59,595	238,379
263.82	2001 PWTF Loan Sewer	7/1/2021	386,935	-	55,276	331,658
263.82	2002 PWTF Loan Water	7/1/2022	533,615	-	66,702	466,913
263.82	2012 PWTF Loan LT2	6/1/2031	898,769	945,379	53,406	1,790,742
263.82	2012 PWTF Loan City Lake	6/1/2031	894,737	-	52,632	842,106
263.82	2012 DWSRF	10/1/2036	660,128	815,661	-	1,475,789
263.82	2013 PWTF Loan 5MG Reservoir	6/1/2032	-	952,713	3,570	949,143
259.12	Compensated Absences		435,420	478,737	475,119	439,038
263.82	2014 DWSRF 5 MG Reservoir Replacement	10/1/2034	-	68,277	-	68,277
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,837,607	7,043,270	875,029	11,005,849
Total Liabilities:			21,644,550	11,028,270	2,752,228	29,920,593

**City of Port Townsend
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Violence Against Women Office, Department Of Justice (via WA State Dept of Commerce)	Violence Against Women Formula Grants	16.588	F14-31103-017	7,436	-	7,436	-	
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	2012-UJ-WX- 0173	-	17,500	17,500	-	
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPUS- 7325(001)	215,381	-	215,381	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPUS- 7630(001)	45,000	-	45,000	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPUS-HLP(001)	80,472	-	80,472	-	
Total Highway Planning and Construction Cluster:				340,853	-	340,853	-	
Institute Of Museum And Library Services (via WA State Secretary of State)	Grants to States	45.310	15-PD-018	2,780	-	2,780	-	
Drinking Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency (via WA State Dept of Health)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-99083909-1	2,263	-	2,263	-	
Office Of Water, Environmental Protection Agency (via Public Works Board Loan)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM12-952-092	1,283,357	-	1,283,357	-	
Total Drinking Water State Revolving Fund Cluster:				1,285,620	-	1,285,620	-	
Department Of Homeland Security (via WA State Military Dept)	Pre-Disaster Mitigation	97.047	E16-091	5,595	-	5,595	-	
Total Federal Awards Expended:				1,642,284	17,500	1,659,784	-	

The accompanying notes are an integral part of this schedule.

**CITY OF PORT TOWNSEND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015**

NOTE 1: BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Port Townsend's financial statements. The City of Port Townsend uses the cash basis of accounting.

NOTE 2: PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of the program costs. Entire program costs, including the City of Port Townsend's portion, are more than shown.

NOTE 3: INDIRECT COST RATE

In 2015 the City of Port Townsend did not opt to claim any indirect costs, therefore did not use the 10% de minimus cost rate covered in 2 CFR Sec. 200.510(b)(6).

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.

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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