



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

**Financial Statements and Federal Single Audit  
Report**

**City of Port Townsend**

**Jefferson County**

**For the period January 1, 2017 through December 31, 2017**

**Published August 6, 2018**

**Report No. 1021831**





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

August 6, 2018

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,

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Port Townsend  
Jefferson County  
January 1, 2017 through December 31, 2017**

### **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>
20.205	Highway Planning and Construction

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, 2017 through December 31, 2017**

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, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated July 27, 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 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's

internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy  
State Auditor  
Olympia, WA

July 27, 2018



**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, 2017 through December 31, 2017**

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, 2017. 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, 2017.

## **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 "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy  
State Auditor  
Olympia, WA

July 27, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Port Townsend Jefferson County January 1, 2017 through December 31, 2017**

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, 2017, 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 opinions 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, 2017, 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, 2017, 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 opinions on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 Schedule of Liabilities is 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 July 27, 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

July 27, 2018

## FINANCIAL SECTION

**City of Port Townsend  
Jefferson County  
January 1, 2017 through December 31, 2017**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2017  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017  
Notes to the Financial Statements – 2017

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2017  
Schedule of Expenditures of Federal Awards – 2017  
Notes to the Schedule of Expenditures of Federal Awards – 2017

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<u>Total for All Funds (Memo Only)</u>	<u>010 General Fund</u>	<u>101 Drug Enforcement</u>	<u>102 Contingency Fund</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	1,182,821	-	-	-
30880	Unreserved	11,102,206	1,421,392	557	120,277
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	12,556,189	7,034,251	-	-
320	Licenses and Permits	545,704	545,704	-	-
330	Intergovernmental Revenues	2,696,824	234,154	-	-
340	Charges for Goods and Services	11,070,787	86,872	-	-
350	Fines and Penalties	55,258	50,933	-	-
360	Miscellaneous Revenues	300,061	75,166	-	507
Total Revenues:		<u>27,224,823</u>	<u>8,027,080</u>	<u>-</u>	<u>507</u>
<b>Expenditures</b>					
510	General Government	2,347,977	1,112,128	-	-
520	Public Safety	5,417,881	3,110,454	-	-
530	Utilities	6,048,113	-	-	-
540	Transportation	1,078,707	-	-	-
550	Natural and Economic Environment	1,376,422	1,022,169	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	2,309,468	14,940	-	-
Total Expenditures:		<u>18,578,568</u>	<u>5,259,691</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		8,646,255	2,767,389	-	507
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	5,910,675	-	-	-
397	Transfers-In	6,646,939	10,153	-	50,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	22,880	780	-	-
381, 395, 398	Other Resources	752,341	250,000	-	-
Total Other Increases in Fund Resources:		<u>13,332,835</u>	<u>260,933</u>	<u>-</u>	<u>50,000</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	9,606,103	88,290	-	-
591-593, 599	Debt Service	2,730,471	-	-	-
597	Transfers-Out	6,680,576	2,317,685	-	-
585	Special or Extraordinary Items	250,000	250,000	-	-
586 / 589	Custodial Activities	41,585	16,761	-	-
581	Other Uses	750,000	-	-	-
Total Other Decreases in Fund Resources:		<u>20,058,735</u>	<u>2,672,736</u>	<u>-</u>	<u>-</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>1,920,355</b>	<b>355,586</b>	<b>-</b>	<b>50,507</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	1,786,451	-	-	-
5088000	Unreserved	12,418,926	1,776,966	557	170,786
<b>Total Ending Cash and Investments</b>		<b>14,205,377</b>	<b>1,776,966</b>	<b>557</b>	<b>170,786</b>

The accompanying notes are an integral part of this statement.



**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<u>110 Street</u>	<u>120 Library</u>	<u>135 Real Estate Excise Tax Fund</u>	<u>150 Lodging Tax</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	304,937	205,694	179,940	177,609
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	1,039,847	725,916	508,504
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	257,042	-	-	-
340	Charges for Goods and Services	3,326	-	-	-
350	Fines and Penalties	-	4,325	-	-
360	Miscellaneous Revenues	16,349	5,011	1,196	-
Total Revenues:		<u>276,717</u>	<u>1,049,183</u>	<u>727,112</u>	<u>508,504</u>
<b>Expenditures</b>					
510	General Government	2,177	-	-	9,361
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	539,112	-	-	-
550	Natural and Economic Environment	-	-	-	324,253
560	Social Services	-	-	-	-
570	Culture and Recreation	-	941,688	-	-
Total Expenditures:		<u>541,289</u>	<u>941,688</u>	<u>-</u>	<u>333,614</u>
Excess (Deficiency) Revenues over Expenditures:		(264,572)	107,495	727,112	174,890
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	607,528	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>607,528</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	87,469	68,993	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	179,656	3,282	606,000	100,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>267,125</u>	<u>72,275</u>	<u>606,000</u>	<u>100,000</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>75,831</b>	<b>35,220</b>	<b>121,112</b>	<b>74,890</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	380,772	240,915	301,052	252,500
<b>Total Ending Cash and Investments</b>		<b>380,772</b>	<b>240,915</b>	<b>301,052</b>	<b>252,500</b>

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<u>171 Fire and EMS</u>	<u>180 Affordable Housing Fund</u>	<u>190 Community Dev Block Grants</u>	<u>199 Community Services</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	15,887	40,780	148,159	125,939
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	2,293,433	10,000	-	543,981
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	19,619	-
340	Charges for Goods and Services	-	-	-	172,767
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	632	142	643	61,845
Total Revenues:		<u>2,294,065</u>	<u>10,142</u>	<u>20,262</u>	<u>778,593</u>
<b>Expenditures</b>					
510	General Government	-	-	-	489,681
520	Public Safety	2,307,427	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	30,000	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	1,347,956
Total Expenditures:		<u>2,307,427</u>	<u>30,000</u>	<u>-</u>	<u>1,837,637</u>
Excess (Deficiency) Revenues over Expenditures:		(13,362)	(19,858)	20,262	(1,059,044)
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	1,074,797
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	22,100
381, 395, 398	Other Resources	-	-	-	765
Total Other Increases in Fund Resources:		-	-	-	1,097,662
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	4,287
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	10,000	-	49,871
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	21,805
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	10,000	-	75,963
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(13,362)</b>	<b>(29,858)</b>	<b>20,262</b>	<b>(37,345)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	2,525	10,922	168,421	88,594
<b>Total Ending Cash and Investments</b>		<b>2,525</b>	<b>10,922</b>	<b>168,421</b>	<b>88,594</b>

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<u>200 G.O. Debt Service</u>	<u>301 General CIP Projects</u>	<u>411 Water Sewer CIP</u>	<u>412 Storm Capital Fund</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	1,182,821	-
30880	Unreserved	71,093	1,192,298	5,826,137	202,873
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	400,257	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	2,185,481	528	-
340	Charges for Goods and Services	-	-	7,590,619	851,986
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	6,404	19,262	96,674	939
Total Revenues:		<u>406,661</u>	<u>2,204,743</u>	<u>7,687,821</u>	<u>852,925</u>
<b>Expenditures</b>					
510	General Government	1,595	2,500	418,781	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	4,949,870	593,686
540	Transportation	-	44,284	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>1,595</u>	<u>46,784</u>	<u>5,368,651</u>	<u>593,686</u>
Excess (Deficiency) Revenues over Expenditures:		405,066	2,157,959	2,319,170	259,239
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	3,304,098	-	2,606,577	-
397	Transfers-In	1,292,488	3,556,058	25,006	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	500,000	-
Total Other Increases in Fund Resources:		<u>4,596,586</u>	<u>3,556,058</u>	<u>3,131,583</u>	<u>-</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	3,206,466	4,691,946	311,786
591-593, 599	Debt Service	1,681,905	6,081	1,042,485	-
597	Transfers-Out	3,304,098	103,285	3,495	3,204
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	3,019	-
581	Other Uses	-	500,000	250,000	-
Total Other Decreases in Fund Resources:		<u>4,986,003</u>	<u>3,815,832</u>	<u>5,990,945</u>	<u>314,990</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>15,649</b>	<b>1,898,185</b>	<b>(540,192)</b>	<b>(55,751)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	1,786,451	-
5088000	Unreserved	86,746	3,090,484	4,682,314	147,120
<b>Total Ending Cash and Investments</b>		<b>86,746</b>	<b>3,090,484</b>	<b>6,468,765</b>	<b>147,120</b>

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<u>423 Golf Course Fund</u>	<u>500 Equipment Rental</u>	<u>540 PW Admin</u>	<u>555 Engineering Services</u>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	37,295	790,926	40,297	175,384
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	871,392	490,119	1,003,706
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	9,883	4,171	290	847
Total Revenues:		<u>9,883</u>	<u>875,563</u>	<u>490,409</u>	<u>1,004,553</u>
<b>Expenditures</b>					
510	General Government	-	281,117	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	504,557	-
540	Transportation	-	495,311	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	4,884	-	-	-
Total Expenditures:		<u>4,884</u>	<u>776,428</u>	<u>504,557</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		4,999	99,135	(14,148)	1,004,553
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	39	76	157
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	1,576	-	-
Total Other Increases in Fund Resources:		<u>-</u>	<u>1,615</u>	<u>76</u>	<u>157</u>
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	177,554	-	969,312
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>-</u>	<u>177,554</u>	<u>-</u>	<u>969,312</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>4,999</b>	<b>(76,804)</b>	<b>(14,072)</b>	<b>35,398</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	42,296	714,117	26,226	210,781
<b>Total Ending Cash and Investments</b>		<b>42,296</b>	<b>714,117</b>	<b>26,226</b>	<b>210,781</b>

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>595</b>
		<b>Unemployment</b>
		<b>Self-Insurance</b>
<b>Beginning Cash and Investments</b>		
30810	Reserved	-
30880	Unreserved	24,732
388 / 588	Prior Period Adjustments, Net	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	100
Total Revenues:		100
<b>Expenditures</b>		
510	General Government	30,637
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		30,637
Excess (Deficiency) Revenues over Expenditures:		(30,537)
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	30,637
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		30,637
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581	Other Uses	-
Total Other Decreases in Fund Resources:		-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>100</b>
<b>Ending Cash and Investments</b>		
5081000	Reserved	-
5088000	Unreserved	24,832
<b>Total Ending Cash and Investments</b>		<b>24,832</b>

**City of Port Townsend**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

	<b>Total for All Funds (Memo Only)</b>	<b>Pension Trust</b>	<b>Private-Purpose Trust</b>	<b>Agency</b>	
308	Beginning Cash and Investments	294,394	226,299	2,549	65,546
388 & 588	Prior Period Adjustment, Net	-	-	-	-
310-390	Additions	159,988	36,188	-	123,800
510-590	Deductions	142,366	30,559	-	111,807
	Net Increase (Decrease) in Cash and Investments:	17,622	5,629	-	11,993
508	Ending Cash and Investments	312,008	231,925	2,549	77,534

*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, 2017**

## **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, waste management, 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: Prior to 2014, the City reported its System Development Charge Fund in the 100 series. This fund was reassigned as a proprietary fund (400 series) because it 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.

*Notes:*

*Prior to 2014, the City reported its System Development Charge Fund in the 100 series. This fund was reassigned as a proprietary fund (400 series) because it was created to fund water and wastewater capital improvements and replacements.*

*Prior to 2016, the City reported its Golf Course Fund as a Fiduciary Fund. The activities of this fund are supported by user charges to support capital improvements, maintenance and repairs, and other operating expenditures of the Golf Course and was reassigned as an Enterprise Fund.*

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.

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).

Private Purpose Trust (Fund 621):

The Memorial Fund was established to account for assets donated to the city. Funds coming into the memorial fund may be a shall be accepted and managed in accord with any conditions and terms imposed by the donor making the gift.

Agency Funds (Funds 613 – 699):

These funds are used to account for 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 2017			
	Final Appropriated Amounts	Actual Expenditures	Variance
General	\$ 8,560,864	\$ 8,362,152	\$ 198,712
Street	\$ 865,941	\$ 808,415	\$ 57,526
Library	\$ 1,036,496	\$ 1,013,963	\$ 22,533
Real Estate Excise Tax Fund	\$ 606,000	\$ 606,000	\$ -
Lodging Tax	\$ 480,000	\$ 433,614	\$ 46,386
Fire & EMS Service	\$ 2,317,194	\$ 2,307,427	\$ 9,767
Affordable Housing Fund	\$ 40,000	\$ 40,000	\$ -
Community Development Block Grants	\$ 15,245	\$ -	\$ 15,245
Community Services	\$ 1,925,969	\$ 1,913,599	\$ 12,370
GO Debt Service	\$ 4,987,702	\$ 4,987,597	\$ 105
Capital Improvement	\$ 5,442,057	\$ 4,196,893	\$ 1,245,164
Water/Sewer Utility Operations	\$ 5,753,353	\$ 5,365,310	\$ 388,044
System Development Charges	\$ 687,000	\$ 687,000	\$ -
Utility Construction Fund	\$ 5,901,617	\$ 4,775,142	\$ 1,126,475
Trans line Replacement	\$ 589,764	\$ 589,764	\$ -
1978 Water Sewer Rev Bond	\$ 22,000	\$ 22,000	\$ -
Water Capital Debt Reserve	\$ 795,369	\$ 651,857	\$ 143,512
Storm water Operations	\$ 478,005	\$ 467,419	\$ 10,586
Storm water Capital Fund	\$ 640,000	\$ 311,786	\$ 328,214
Equipment Rental	\$ 982,600	\$ 953,982	\$ 28,618
Public Work & Admin	\$ 530,119	\$ 504,554	\$ 25,565
Engineering Service Fund	\$ 1,003,088	\$ 969,311	\$ 33,777
Unemployment Self Insurance	\$ 30,640	\$ 30,637	\$ 3
Firemen's Pension	\$ 31,487	\$ 30,559	\$ 928
Court Agency Funds	\$ -	\$ 111,806	\$ (111,806)
Golf Course Fund	\$ 9,698	\$ 4,884	\$ 4,814
<b>TOTAL</b>	<b>\$ 43,732,208</b>	<b>\$ 40,145,673</b>	<b>\$ 3,586,536</b>

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 impact 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 based on fund balance.

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, 2017 is listed below:

<b>City of Port Townsend</b>		
<b>State of Washington</b>		
<b>Local Government Investment Pool</b>		
<b>1/1/2017 Beginning Balance</b>		<b>\$ 6,485,230</b>
Gross Investment Earnings	\$ 63,168	
Administrative Fees	<u>(486)</u>	
Net Investment Earnings		62,681
Deposits	\$ -	
Withdrawals	<u>-</u>	
		-
<b>12/31/2017 Ending Balance (Market Value)</b>		<b><u>\$ 6,547,911</u></b>

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 \$5,000 and have a useful life of one year or more.

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 \$55,855 from 2016 to 2017, ending at \$511,399 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 these 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, 2017 are \$1,786,451. 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 – 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 2017 was \$1.55334 per \$1,000 on assessed valuation of \$1,441,602,061 for

a total regular levy of \$2,239,304.

A Library LID lift was approved by voters in 2008 to be phased in over 2009-2011. For 2017 the library levy was \$0.72217 per \$1,000 for a total of \$1,041,085.

Voters approved a Fire LID lift in 2012. For 2017 the Fire LID lift was \$0.47694 per \$1,000 for a tax amount of \$687,562.

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 \$720,801 in 2017.

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 2017 was \$0.10607 per \$1,000 of assessed property value for a total levy of \$149,999.

**NOTE 3 – 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 2017. The debt service payments for the year being reported and future payment requirements, including interest, are listed in the table below. Schedule 9 also includes liabilities for compensated absences (see Note 1) and pension liabilities (see note 5).

<b>DEBT SERVICE SCHEDULE</b>						
<b>Year</b>	<b>G.O. Bonds</b>	<b>G.O. Bond Anticipation Line of Credit</b>	<b>Revenue Bond Anticipation Line of Credit</b>	<b>Revenue Bonds</b>	<b>Other Debt</b>	<b>Total Debt Service</b>
2017	\$1,578,619	\$0	\$30,753	\$22,000	\$989,732	\$2,621,105
2018	\$1,642,655	\$0	\$1,719,409	\$21,000	\$978,128	\$4,361,192
2019	\$1,643,405	\$0	\$0	\$0	\$1,529,990	\$3,173,395
2020	\$1,642,893	\$0	\$0	\$0	\$1,317,532	\$2,960,425
2021	\$1,639,243	\$0	\$0	\$0	\$1,308,591	\$2,947,834
2022-2026	\$8,124,768	\$0	\$0	\$0	\$5,768,585	\$13,893,353
2027-2031	\$8,095,800	\$0	\$0	\$0	\$5,340,527	\$13,436,327
2032-2036	\$5,278,400	\$0	\$0	\$0	\$3,112,968	\$8,391,368
2037-2039	\$0	\$0	\$0	\$0	\$775,610	\$775,610
<b>Total</b>	<b>\$29,645,783</b>	<b>\$0</b>	<b>\$1,750,162</b>	<b>\$43,000</b>	<b>\$21,121,662</b>	<b>\$52,560,607</b>

## A. Bonds

The City of Port Townsend issues general obligation and revenue bonds to finance the construction and improvement of capital assets. Bonded indebtedness has also been used 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 2017, the City issued \$9,155,000 Of Limited Tax General Obligation and Refunding Bonds (Series 2017A Bank Qualified/Tax Exempt) and \$1,105,000 Limited Tax General Obligation Bonds (Series 2017B Taxable). The proceeds of the Bonds refunded approximately \$7,800,000 of the 2008 General Obligation Bonds at a significantly lower interest rate, producing a net present value savings of \$980,000 or 13.1%. The City took advantage of the savings and low interest rate environment to obtain an additional \$3,200,000 in proceeds. These proceeds fund sidewalk improvements, Water Street repaving project, capital improvements at the Carnegie Library and other capital items. The All-in Total Interest Cost of the bonds was 3.29%. The Bonds were authorized pursuant to Ordinance 3165, passed on February 6, 2017. Two series of bonds were structured where the taxable (higher interest rate) series (2017B) matures first callable on or after June 1, 2022, followed by the lower cost tax-exempt bonds (2017A), callable on or after June 1, 2026. As a cash basis entity, the city only recorded the net cash proceeds. This caused a variance between cash proceeds on the GL vs. the Debt Principal totals recorded on Schedule 09. The City applied to S&P Global Ratings (S&P) for a rating on the bonds. The City Manager and Finance Director participated in a rating call with S&P analysts covering the local economy, city policies and practices, management and finances. Based on the overall strength of the City, S&P upgraded the City's bond rating from A+ to AA-.

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. 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 did not initiate any draws on this line of credit in 2017. The maturity date of the line of credit was December 1, 2017, and was amended with Ordinance 3186 to extend the maturity to May 31, 2019. The interest rate and other terms remain the same. The interest rate for this credit line was 2.01% as of December 31, 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.

In 2016, the city council approved authorized a line of credit providing for the issuance and sale of a Water and Sewer Revenue Bond Anticipation Note with an aggregate principal amount not to exceed \$3,000,000. This line of credit was established to provide interim financing for the city's water and sewer capital improvements. The interest rate is Kitsap Bank's prime rate minus 2.25% and cannot be

less than 1.25%. As of the end of 2017, the city had an outstanding draw on the line of credit of \$1,700,000, and the interest rate was 2.0%. The maturity date of the line of credit is March 1, 2018. The line of credit will allow the City to pay construction invoices per contract terms while awaiting reimbursement from state and federal programs.

Proprietary Long-Term Debt currently outstanding as of December 31, 2017 is as follows:

<b>PROPRIETARY LONG TERM DEBT</b>					
<b>Issue Year</b>	<b>Purpose</b>	<b>Original Issue</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Debt Outstanding</b>
1978	Water/Sewer Revenue Bonds for Water and Sewer Improvements	\$395,000	5.00%	12/1/2018	\$20,000
2016	Utility Capital Revenue Bond Anticipation Note Line of Credit for Water/ Sewer improvements	\$1,700,000	Prime rate minus 2.25% interest rate; cannot be less than 1.25%	3/1/2018	\$1,700,000
2017	<u>DOE</u> - Wastewater Facility - Outfall Project	\$2,100	2.00%	6/30/2018	\$2,100
<b>Total</b>					<b>\$1,722,100</b>

General Obligation Debt currently outstanding as of December 31, 2017 is as follows:

<b>G.O. LONG TERM OUTSTANDING DEBT</b>					
<b>Issue Year</b>	<b>Purpose</b>	<b>Original Issue</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Debt Outstanding</b>
2008	Limited G.O. Bonds for construction funds for civic and street improvements	\$7,500,000	4.15% - 5.00%	12/1/2038	\$0
2010	Limited G.O. Bonds for street, sidewalk, utilities and historic district	\$3,740,000	2.30% - 5.00%	12/1/2030	\$3,355,000
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	\$3,165,000
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 12/31/2017 - 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	\$3,205,000
2017	Limited G.O. Taxable Bonds for Library Renovations, Streets & Visitor Center Frontage & Other general Capital Projects	\$1,150,000	1.2% - 3.2%	12/1/2025	\$1,060,000
2017	Limited G.O. Bonds for Library Retrofit, Streets & Visitor Center Frontage & other general capital projects	\$9,155,000	4.00%	12/1/2035	\$9,155,000
<b>Total</b>					<b>\$19,940,000</b>



B. 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 eight 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 one SRF loan.

Drinking Water State Revolving Fund (DWSRF) Loans are low interest State of Washington loans for infrastructure construction and improvements for drinking water systems that increase public health and comply with drinking water regulations. In some cases, partial loan forgiveness is offered. The City currently has three of these loans.

As of December 31, 2017, 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%	7/1/2018	\$44,718
1999	PWTF Loan: Gaines Street Lift Station; San Juan Street Trunk Line	\$1,434,365	1.00%	7/1/2019	\$119,190
2001	PWTF Loan: Wastewater Treatment Outfall Expansion; Trunk Sewer Line Replacement	\$1,153,350	0.50%	7/1/2021	\$221,106
2002	PWTF Loan: Morgan Hill Water System Improvements	\$1,263,453	0.50%	7/1/2022	\$333,509
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%	10/31/2023	\$337,127
2012	PWTF Loan: City Lake Repair	\$1,000,000	0.50%	6/1/2031	\$736,842
2012	PWTF Loan: Mandated LT2 Water Treatment Facility	\$1,896,000	0.50%	6/1/2031	\$1,566,899
2012	DWSRF Loan: LT2 Federally Mandated Water Treatment Facility	\$3,071,521	1.50%	10/1/2036	\$2,917,945
2013	PWTF Loan: 5 MG Reservoir Replacement	\$1,236,442	0.50%	6/1/2032	\$1,103,985
2013	PWTF Loan: UV Disinfection	\$3,688,278	0.50%	6/1/2032	\$3,442,963
2014	DWSRF Loan: Replacement for Primary 5MG Reservoir with Boost	\$5,588,890	1.00%	10/1/2038	\$5,588,890
2015	DWSRF Loan: Mandated LT2 Water Treatment Facility	\$5,053,250	1.00%	10/1/2038	\$4,240,773
<b>Total</b>					<b>\$20,653,946</b>

**NOTE 4 – 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 Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution employee retirement plans. 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 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  
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](http://www.drs.wa.gov).

At June 30, 2017 (the measurement date of the plans), the city’s proportionate share of the collective *net pension liabilities*, as reported on Schedule 09, and the city’s proportionate share of the collective *net pension assets* was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.000000%	\$0.00
PERS 1 UAAL	0.039986%	\$2,147,436.53
PERS 2 / 3	0.051237%	\$2,579,742.47
<i>Total Net Pension Liability (Sch 09)</i>		\$4,727,179.01

	Allocation %	Liability (Asset)
PERS 1	0.000000%	\$0.00
PERS 1 UAAL	0.039926%	\$1,894,519.84
PERS 2 / 3	0.051355%	\$1,784,340.77
<i>Total Net Pension Liability (Sch 09)</i>		\$3,678,860.62
LEOFF 1	0.011893%	-\$180,442.97
LEOFF 2	0.040411%	-\$560,773.75
<i>Net pension Assets</i>		-\$741,216.72

#### LEOFF Plan 1

The city 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 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, 2017, there were a total of three individuals covered and drawing benefits under this system. None of these individuals were employed by the City in 2017.

As of December 31, 2017, the fund balance of this trust fund was \$231,925.

### **NOTE 5 – 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 (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created to providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sub-limits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sub-limits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sub-limits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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 interlocal, 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 6 – 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 7 – INTERFUND LOANS**

In November 2015, the City Council authorized an interfund loan from the Transmission Line Replacement Fund to the Street Capital Fund to provide the matching funds necessary 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 \$320,000 was for 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 were scheduled to be repaid by January 31, 2018 but were paid off on March 31, 2017 as part of the advance refunding/refinancing of the 2008 Limited General Obligation Bonds (see Note 16 Subsequent Events).

In 2017, the City Council authorized, through Resolution 17-053 on November 13, 2017, an interfund loan from the Transmission Line Replacement Fund to the General Fund regarding resolution 17-019 on April 24, 2017 authorizing a loan from the City to Homeward Bound, a Washington non-profit corporation for an affordable housing project. This interfund loan will be repaid through a permanent financing plan to be identified by the City in 2018 (see subsequent events note). This \$250,000 loan is the only outstanding interfund loan as of 12/31/2017.

Loan Reference	Borrowing Fund	Lending Fund	Balance 1/1/17	2017 Repayments	New Loans	Balance 12/31/2017
Landes & Sheridan Street Sidewalks	Street Capital (305)	Transmission Line (417)	\$205,000	\$205,000	\$0	\$0
Howard Street Extension	Street Capital (305)	Transmission Line (417)	\$115,000	\$115,000	\$0	\$0
Honeywell Energy Project	General Capital (301)	Transmission Line (417)	\$180,000	\$180,000	\$0	\$0
Homeward Bound	General Fund	Transmission Line (417)	\$0	\$0	\$250,000	\$250,000
		<b>TOTAL</b>	<b>\$500,000</b>	<b>\$500,000</b>	<b>\$250,000</b>	<b>\$250,000</b>

### **NOTE 8 – 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, 2017, the fund had a balance of \$24,832 as compared to the prior year ending Fund balance of \$24,732.

### **NOTE 9 – 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
- Storm Utility Fund
- General Government Capital Improvement Project Fund

**NOTE 10 – 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 three Fire/EMS retirees and/or spouses received these benefits during the year and \$58,899 was paid out for those benefits.

**NOTE 11 – CONSTRUCTION COMMITMENT**

The City of Port Townsend has four active construction projects as of December 31, 2017. Total construction commitment as of the end of the year totaled \$3,219,687. A summary table of those commitments is below:

<b>TABLE OF CONSTRUCTION COMMITMENTS - 2017</b>					
<b>PROJECT</b>	<b>CONTRACTOR</b>	<b>PROJECT PHASE</b>	<b>CONTRACT AMOUNT</b>	<b>PAID TO DATE</b>	<b>REMAINING CONTRACT</b>
Water Treatment Phase II	HDR Engineering	Design	2,870,656	2,830,767	39,889
Rainier Regional Storm	AHBL	Design	148,838	63,700	85,138
Big Quil Diversion	HDR Engineering	Design	278,385	112,636	165,749
Wtr Trmt Facility & 5 MG Reservoir	Steller J	Construction	14,211,666	14,186,285	25,381
Golf Course	Holt Services	Construction	278,385	112,636	165,749
Water Street Overlay	Shea Carr Jewell	Design / Construction	461,345	295,922	165,423
Water Street Overlay	Interwest Construction	Construction	2,340,920	-	2,340,920
7th Street	Shea Carr Jewell	Design	14,889	2,517	12,372
SR 20 Pedestrian Walkway	PND ENG	Design	120,000	31,024	88,976
Mountain View	Rollunda Architect	Design	172,882	140,935	31,947
Library	Rollunda Architect	Design	110,203	87,304	22,899
Mountain View	Terrapin	Construction	61,400	3,185	58,215
Library	Terrapin	Construction	20,400	3,373	17,027
		<b>TOTAL</b>	<b>\$21,089,969</b>	<b>\$17,870,282</b>	<b>\$3,219,687</b>

## **NOTE 12 – HEALTH & WELFARE**

The City of Port Townsend is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust. As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.



The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

### **NOTE 13 – SUBSEQUENT EVENTS**

On April 20, 2017, the City Council authorized resolution 17-019 related to Affordable Housing at the City's Cherry Street Properties. This resolution also authorized the City Manager to negotiate and execute an agreement with Homeward Bound (doing business as Olympic Housing Trust) and further authorized a loan to this non-profit organization. The resolution authorized a line of credit not to exceed \$250,000 to Homeward Bound to expedite the purchase, move and delivery of a four-plex building that could be placed on the City's Cherry Street property. The line of credit between the City and Homeward Bound will allow the organization to obtain the afore mentioned building while working to secure permanent institutional and private funding for the project. The line of credit was scheduled to mature on December 26, 2017 with a 2.5% interest rate, however the City Council authorized resolution 17-053 to extend the maturity date of the loan. An interfund loan from the Transmission Line Fund to the General Fund in the amount of \$250,000 was authorized until Homeward Bound can identify permanent financing. The loan is to be repaid no later than December 26, 2018.

In 2009, this Cherry Street property was identified by the City Council as one of several properties suitable for use for affordable housing. The City held a public hearing on May 8, 2017 to declare the property as surplus to the City's needs and to authorize the City Manager to dispose of the property and authorize the sale of this property to Homeward Bound. The organization will agree to rent the property to very low or low income households for a period of not less than 40 years.

The City is working with Homeward Bound to identify permanent financing solutions for the completion of the four plex and the addition of four additional units attached to the building. Costs associated with this project include the repayment of the initial \$250,000 loan, foundation and site work costs and construction of the additional units. In May 2018, Ordinance 3201 was approved. This ordinance provided for the issuance and sale of a twenty year Limited Tax General Obligation Bond with a principal amount of \$834,000 through Kitsap Bank. The sale of this bond occurred in late May 2018. The City is working with Homeward Bound to execute a repayment agreement in the total amount of \$925,000 over a period of forty years. The related agreements with Homeward Bound are targeted to be completed in July 2018.

### **NOTE 14 – 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 can 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 2017, the City provided \$30,000 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.

**City of Port Townsend  
Schedule of Liabilities  
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
251.11	2008 Bond	12/1/2038	7,500,000	-	7,500,000	-
251.11	2010 Bond	12/1/2030	3,550,000	-	195,000	3,355,000
251.11	2012 Refunding Bond	12/1/2025	3,635,000	-	470,000	3,165,000
251.22	2015 Bond	12/1/2031	3,385,000	-	180,000	3,205,000
251.11	2017a Refunding Bond	12/1/2035	-	9,155,000	-	9,155,000
251.11	2017b Taxable Refunding Bonds	12/1/2025	-	1,105,000	45,000	1,060,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>18,070,000</b>	<b>10,260,000</b>	<b>8,390,000</b>	<b>19,940,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.62	2014 BAN Line of Credit	12/1/2017	-	-	-	-
263.92	2016 Utility Line of Credit	3/1/2018	1,700,000	-	-	1,700,000
252.11	1978 Water Revenue Bond	3/1/2018	40,000	-	20,000	20,000
263.88	1998 PWTF Loan Water	7/1/2018	89,436	-	44,718	44,718
263.88	1999 PWTF Loan Sewer	7/1/2019	178,784	-	59,595	119,189
263.88	2001 PWTF Loan Sewer	7/1/2021	276,381	-	55,276	221,105
263.88	2002 PWTF Loan Water	7/1/2022	400,211	-	66,702	333,509
263.82	2002 DOE Wastewater Loan	10/31/2023	382,473	-	45,346	337,127
263.88	2012 PWTF Loan City Lake	6/1/2031	789,474	-	52,632	736,842
263.82	2012 DWSRF LT2	10/1/2036	3,071,521	-	153,576	2,917,945
263.88	2012 PWTF Loan LT2	6/1/2031	1,678,820	-	111,921	1,566,899
259.12	Compensated Absences		455,544	587,034	531,179	511,399
263.88	2013 PWTF Loan 5MG Reservoir	6/1/2032	1,177,584	-	73,599	1,103,985
263.88	2013 PWTF Loan UV Disinfection	6/1/2032	2,257,661	1,373,196	187,894	3,442,963
263.82	2014 DWSRF Loan 5MG Reservoir	10/1/2038	4,363,689	1,225,200	-	5,588,889
263.82	2015 DWSRF Loan LT2	10/1/2038	4,240,773	-	-	4,240,773
263.86	2017 DOE Wastewater Loan	6/30/2018	-	2,100	-	2,100
264.30	Net Pension Liability		4,727,179	617,674	1,665,992	3,678,861
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>25,829,530</b>	<b>3,805,204</b>	<b>3,068,430</b>	<b>26,566,304</b>
<b>Total Liabilities:</b>			<b>43,899,530</b>	<b>14,065,204</b>	<b>11,458,430</b>	<b>46,506,304</b>

**City of Port Townsend  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

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		
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Dept. Of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	15-62210-029	20,276	-	20,276	-	
Violence Against Women Office, Department Of Justice (via Dept. Of Commerce)	Violence Against Women Formula Grants	16.588	F16-31103-073	1,894	-	1,894	-	
Bureau Of Justice Assistance, Department Of Justice (via WA Safety Traffic Commission)	Bulletproof Vest Partnership Program	16.607	VEST GRANT	2,080	-	2,080	-	
<b>Highway Planning and Construction Cluster</b>								
Federal Highway Administration (fhwa), Department Of Transportation (via Dept. Of Transportation)	Highway Planning and Construction	20.205	STPUS-7625 (001)	331,188	-	331,188	-	
<b>Total Highway Planning and Construction Cluster:</b>				<b>331,188</b>	<b>-</b>	<b>331,188</b>	<b>-</b>	
<b>Highway Safety Cluster</b>								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Association of Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	2016-2017 WASPC	799	-	799	-	
<b>Total Highway Safety Cluster:</b>				<b>799</b>	<b>-</b>	<b>799</b>	<b>-</b>	
<b>Clean Water State Revolving Fund Cluster</b>								
Office Of Water, Environmental Protection Agency (via Dept. Of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2017- PORTOC- 00182	2,667	-	2,667	-	
<b>Total Clean Water State Revolving Fund Cluster:</b>				<b>2,667</b>	<b>-</b>	<b>2,667</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**City of Port Townsend  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

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		
<b>Drinking Water State Revolving Fund Cluster</b>								
Office Of Water, Environmental Protection Agency (via Public Works Board Loan)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM15-952-034	448,769	-	448,769	-	
<b>Total Drinking Water State Revolving Fund Cluster:</b>				<b>448,769</b>	<b>-</b>	<b>448,769</b>	<b>-</b>	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Pre-Disaster Mitigation	97.047	E16-091	1,921	-	1,921	-	
<b>Total Federal Awards Expended:</b>				<b>809,594</b>	<b>-</b>	<b>809,594</b>	<b>-</b>	

**City of Port Townsend**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Note 1 – Basis of Accounting:

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the cash basis of accounting for all of its funds.

Note 2 – Program Costs:

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Federal Loans:

The city was approved by the EPA and PWB to receive loans totaling \$18,861,455 to improve its drinking water system. The amount listed for this loan includes the proceeds used during the year. Both current and prior year loans are also reported on the city's Schedule of Liabilities.

Note 4 – Indirect Cost Rate:

The city has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

## 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>