



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Port Townsend

For the period January 1, 2018 through December 31, 2019

Published April 5, 2021

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

April 5, 2021

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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 January 1, 2018 through December 31, 2019

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, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated March 29, 2021.

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

As discussed in Note 12 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS Manual.

As discussed in Note 17 the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 style with a large, sweeping initial "P".

Pat McCarthy
State Auditor
Olympia, WA

March 29, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Port Townsend January 1, 2018 through December 31, 2019

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, for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Port Townsend has prepared these financial statements to meet the financial reporting requirements of state law 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 cash and investments of the City of Port Townsend, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the

significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

As discussed in Note 12 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the 2019 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2021 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.

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

March 29, 2021

**City of Port Townsend
January 1, 2018 through December 31, 2019**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Fund Resources and Uses Arising from Cash Transactions – 2018
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018
Notes to Financial Statements – 2019
Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019
Schedule of Liabilities – 2018

City of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	010 General Fund	101 Drug Enforcement	102 Contingency Fund
Beginning Cash and Investments					
30810	Reserved	719,177	-	-	-
30880	Unreserved	12,013,963	1,904,791	1,000	181,490
388 / 588	Net Adjustments	280,891	88,920	-	-
Revenues					
310	Taxes	13,052,157	7,405,087	-	-
320	Licenses and Permits	653,964	653,502	-	-
330	Intergovernmental Revenues	1,368,082	242,717	-	-
340	Charges for Goods and Services	12,059,040	89,039	-	-
350	Fines and Penalties	47,049	45,583	-	-
360	Miscellaneous Revenues	897,102	148,917	-	2,877
Total Revenues:		<u>28,077,394</u>	<u>8,584,845</u>	<u>-</u>	<u>2,877</u>
Expenditures					
510	General Government	2,696,940	1,277,741	-	-
520	Public Safety	5,923,370	3,519,912	-	-
530	Utilities	7,281,652	-	-	-
540	Transportation	1,171,418	-	-	-
550	Natural and Economic Environment	1,697,304	1,063,032	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	2,657,151	2,784	-	-
Total Expenditures:		<u>21,427,835</u>	<u>5,863,469</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		6,649,559	2,721,376	-	2,877
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	255,271	-	-	-
397	Transfers-In	3,259,742	-	-	500
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	279,727	71,035	-	-
Total Other Increases in Fund Resources:		<u>3,794,740</u>	<u>71,035</u>	<u>-</u>	<u>500</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	3,550,841	315,388	-	-
591-593, 599	Debt Service	3,347,512	-	-	-
597	Transfers-Out	3,293,977	2,484,077	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	4,607	4,607	-	-
581, 582	Other Uses	310,232	68,017	-	-
Total Other Decreases in Fund Resources:		<u>10,507,169</u>	<u>2,872,089</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Cash and Investments:		(62,870)	(79,678)	-	3,377
Ending Cash and Investments					
5081000	Reserved	688,212	-	-	-
5088000	Unreserved	12,262,949	1,914,033	1,000	184,867
Total Ending Cash and Investments		<u>12,951,161</u>	<u>1,914,033</u>	<u>1,000</u>	<u>184,867</u>

City of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

	110 Street Operations Fund	120 Library Fund	135 Real Estate Excise Tax Fund	150 Lodging Tax Fund
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	260,854	214,522	380,283
388 / 588	Net Adjustments	-	-	246,906
Revenues				
310	Taxes	-	1,089,122	577,446
320	Licenses and Permits	462	-	-
330	Intergovernmental Revenues	214,448	-	-
340	Charges for Goods and Services	988	-	-
350	Fines and Penalties	-	1,466	-
360	Miscellaneous Revenues	19,901	57,060	6,201
Total Revenues:		235,799	1,147,648	583,647
Expenditures				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	-	-	-
540	Transportation	611,489	-	-
550	Natural and Economic Environment	-	-	366,964
560	Social Services	-	-	-
570	Culture and Recreation	-	1,106,528	-
Total Expenditures:		611,489	1,106,528	366,964
Excess (Deficiency) Revenues over Expenditures:		(375,690)	41,120	583,647
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	636,707	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	688	-	-
Total Other Increases in Fund Resources:		637,395	-	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	27,439	2,444	-
591-593, 599	Debt Service	-	-	52,205
597	Transfers-Out	174,900	-	510,000
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		202,339	2,444	510,000
Increase (Decrease) in Cash and Investments:		59,366	38,676	73,647
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	320,220	253,198	453,930
Total Ending Cash and Investments		320,220	253,198	453,930
				270,862

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, 2019

	171 Fire and EMS Fund	180 Affordable Housing Fund	190 Community Dev Block Grants	199 Community Services Fund
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	4,622	21,080	176,617
388 / 588	Net Adjustments	-	-	2,549
Revenues				
310	Taxes	2,403,048	9,719	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	16,090
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	3,030	386	2,958
Total Revenues:		2,406,078	10,105	19,048
Expenditures				
510	General Government	-	-	-
520	Public Safety	2,403,458	-	-
530	Utilities	-	-	-
540	Transportation	-	-	-
550	Natural and Economic Environment	-	-	3,315
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		2,403,458	-	3,315
Excess (Deficiency) Revenues over Expenditures:		2,620	10,105	15,733
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	-	-
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		-	-	-
Increase (Decrease) in Cash and Investments:		2,620	10,105	15,733
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	7,242	31,185	192,350
Total Ending Cash and Investments		7,242	31,185	192,350

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, 2019

		<u>200 G.O. Debt Service</u>	<u>301 General CIP Projects</u>	<u>411 Water Sewer Fund</u>	<u>412 Storm Fund</u>
Beginning Cash and Investments					
30810	Reserved	-	-	719,177	-
30880	Unreserved	89,905	1,852,071	4,669,691	168,160
388 / 588	Net Adjustments	-	73,883	115,539	-
Revenues					
310	Taxes	398,293	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	494,597	400,230	-
340	Charges for Goods and Services	-	-	8,341,036	943,540
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	7,976	97,641	386,104	3,303
Total Revenues:		<u>406,269</u>	<u>592,238</u>	<u>9,127,370</u>	<u>946,843</u>
Expenditures					
510	General Government	5,800	-	493,653	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	5,160,758	736,830
540	Transportation	-	96,704	-	-
550	Natural and Economic Environment	-	263,993	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>5,800</u>	<u>360,697</u>	<u>5,654,411</u>	<u>736,830</u>
Excess (Deficiency) Revenues over Expenditures:		400,469	231,541	3,472,959	210,013
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	255,271
397	Transfers-In	1,283,900	126,035	22,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	92,100	3,051	-
Total Other Increases in Fund Resources:		<u>1,283,900</u>	<u>218,135</u>	<u>25,051</u>	<u>255,271</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	1,670,235	956,004	276,157
591-593, 599	Debt Service	1,677,451	9,514	1,468,360	192,187
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	56,588	166,298	-
Total Other Decreases in Fund Resources:		<u>1,677,451</u>	<u>1,736,337</u>	<u>2,590,662</u>	<u>468,344</u>
Increase (Decrease) in Cash and Investments:		6,918	(1,286,661)	907,348	(3,060)
Ending Cash and Investments					
5081000	Reserved	-	-	688,212	-
5088000	Unreserved	96,823	639,293	5,723,543	165,100
Total Ending Cash and Investments		96,823	639,293	6,411,755	165,100

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, 2019

	423 Golf Course Fund	500 Fleet Replacement Fund	540 Public Works Administration	555 Engineering Services
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	27,728	1,499,764	28,847
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	-	1,179,432	526,601
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	8,653	36,246	1,344
Total Revenues:		8,653	1,215,678	527,945
Expenditures				
510	General Government	-	299,634	-
520	Public Safety	-	-	-
530	Utilities	-	-	508,691
540	Transportation	-	463,225	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	24,162	-	-
Total Expenditures:		24,162	762,859	508,691
Excess (Deficiency) Revenues over Expenditures:		(15,509)	452,819	19,254
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	3,500	-
Total Other Increases in Fund Resources:		-	3,500	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	204,289	-
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		-	204,289	-
Increase (Decrease) in Cash and Investments:		(15,509)	252,030	19,254
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	12,219	1,751,794	48,101
Total Ending Cash and Investments		12,219	1,751,794	48,101
		(103,957)	55,591	55,591

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, 2019

		595 Unemployment Self-Insurance
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	25,078
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	397
Total Revenues:		397
Expenditures		
510	General Government	668
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		668
Excess (Deficiency) Revenues over Expenditures:		(271)
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	667
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		667
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		-
Increase (Decrease) in Cash and Investments:		396
Ending Cash and Investments		
5081000	Reserved	-
5088000	Unreserved	25,474
Total Ending Cash and Investments		25,474

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, 2018

		<u>Total for All Funds (Memo Only)</u>	<u>010 General Fund</u>	<u>101 Drug Enforcement</u>	<u>102 Contingency Fund</u>
Beginning Cash and Investments					
30810	Reserved	1,786,451	-	-	-
30880	Unreserved	12,418,926	1,776,966	557	170,786
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	12,996,531	7,422,114	-	-
320	Licenses and Permits	610,867	610,405	-	-
330	Intergovernmental Revenues	1,532,452	287,813	-	-
340	Charges for Goods and Services	11,782,180	130,927	-	-
350	Fines and Penalties	60,223	58,811	-	-
360	Miscellaneous Revenues	1,190,220	112,873	-	1,704
Total Revenues:		<u>28,172,473</u>	<u>8,622,943</u>	<u>-</u>	<u>1,704</u>
Expenditures					
510	General Government	2,520,079	1,130,600	-	-
520	Public Safety	5,810,229	3,440,760	-	-
530	Utilities	6,423,194	-	-	-
540	Transportation	1,198,033	-	-	-
550	Natural and Economic Environment	1,518,626	1,075,069	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	2,549,471	6,345	-	-
Total Expenditures:		<u>20,019,632</u>	<u>5,652,774</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		8,152,841	2,970,169	-	1,704
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	4,734,931	-	-	-
397	Transfers-In	4,152,842	4,007	443	9,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	29,273	960	-	-
381, 382, 395, 398	Other Resources	296,070	10,800	-	-
Total Other Increases in Fund Resources:		<u>9,213,116</u>	<u>15,767</u>	<u>443</u>	<u>9,000</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	10,524,589	63,196	-	-
591-593, 599	Debt Service	3,850,461	-	-	-
597	Transfers-Out	4,184,321	2,785,795	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	28,823	9,120	-	-
581, 582	Other Uses	250,000	-	-	-
Total Other Decreases in Fund Resources:		<u>18,838,194</u>	<u>2,858,111</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Cash and Investments:		(1,472,237)	127,825	443	10,704
Ending Cash and Investments					
5081000	Reserved	719,177	-	-	-
5088000	Unreserved	12,013,963	1,904,791	1,000	181,490
Total Ending Cash and Investments		12,733,140	1,904,791	1,000	181,490

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, 2018

		<u>110 Street</u>	<u>120 Library</u>	<u>135 Real Estate Excise Tax Fund</u>	<u>150 Lodging Tax</u>
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	380,772	240,915	301,052	252,500
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	1,068,190	615,768	534,185
320	Licenses and Permits	462	-	-	-
330	Intergovernmental Revenues	221,354	-	-	-
340	Charges for Goods and Services	759	-	-	-
350	Fines and Penalties	-	1,412	-	-
360	Miscellaneous Revenues	11,834	7,784	3,463	1,616
Total Revenues:		<u>234,409</u>	<u>1,077,386</u>	<u>619,231</u>	<u>535,801</u>
Expenditures					
510	General Government	-	-	-	12,838
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	665,025	-	-	-
550	Natural and Economic Environment	-	-	-	403,557
560	Social Services	-	-	-	-
570	Culture and Recreation	-	1,028,299	-	-
Total Expenditures:		<u>665,025</u>	<u>1,028,299</u>	<u>-</u>	<u>416,395</u>
Excess (Deficiency) Revenues over Expenditures:		(430,616)	49,087	619,231	119,406
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	627,707	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	8,111	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>635,818</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	150,220	75,480	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	174,900	-	540,000	125,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>325,120</u>	<u>75,480</u>	<u>540,000</u>	<u>125,000</u>
Increase (Decrease) in Cash and Investments:		(119,918)	(26,393)	79,231	(5,594)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	260,854	214,522	380,283	246,906
Total Ending Cash and Investments		260,854	214,522	380,283	246,906

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, 2018

		<u>171 Fire and EMS</u>	<u>180 Affordable Housing Fund</u>	<u>190 Community Dev Block Grants</u>	<u>199 Community Services</u>
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	2,525	10,922	168,421	88,594
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	2,369,499	10,000	-	571,127
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	46,519	-
340	Charges for Goods and Services	-	-	-	194,916
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,067	158	1,677	68,514
Total Revenues:		<u>2,371,566</u>	<u>10,158</u>	<u>48,196</u>	<u>834,557</u>
Expenditures					
510	General Government	-	-	-	524,740
520	Public Safety	2,369,469	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	40,000	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	1,491,611
Total Expenditures:		<u>2,369,469</u>	<u>-</u>	<u>40,000</u>	<u>2,016,351</u>
Excess (Deficiency) Revenues over Expenditures:		2,097	10,158	8,196	(1,181,794)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	1,196,009
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	20,202
381, 382, 395, 398	Other Resources	-	-	-	637
Total Other Increases in Fund Resources:		<u>-</u>	<u>-</u>	<u>-</u>	<u>1,216,848</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	3,474
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	1,250
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	17,918
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>-</u>	<u>-</u>	<u>-</u>	<u>22,642</u>
Increase (Decrease) in Cash and Investments:		2,097	10,158	8,196	12,412
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	4,622	21,080	176,617	101,006
Total Ending Cash and Investments		4,622	21,080	176,617	101,006

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, 2018

		<u>200 G.O. Debt Service</u>	<u>301 CIP Street</u>	<u>411 Water Sewer CIP</u>	<u>412 Storm Capital Fund</u>
Beginning Cash and Investments					
30810	Reserved	-	-	1,786,451	-
30880	Unreserved	86,746	3,090,484	4,682,314	147,120
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	405,648	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	976,199	567	-
340	Charges for Goods and Services	-	-	7,816,815	859,233
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	5,502	309,316	628,820	1,791
Total Revenues:		<u>411,150</u>	<u>1,285,515</u>	<u>8,446,202</u>	<u>861,024</u>
Expenditures					
510	General Government	1,500	1,500	525,089	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	5,228,398	669,775
540	Transportation	-	39,489	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>1,500</u>	<u>40,989</u>	<u>5,753,487</u>	<u>669,775</u>
Excess (Deficiency) Revenues over Expenditures:		409,650	1,244,526	2,692,715	191,249
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	1,643,822	2,653,749	437,360
397	Transfers-In	1,257,400	95,330	25,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	26,451	258,182	-
Total Other Increases in Fund Resources:		<u>1,257,400</u>	<u>1,765,603</u>	<u>2,936,931</u>	<u>437,360</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	3,994,047	4,001,578	607,569
591-593, 599	Debt Service	1,663,891	4,495	2,182,075	-
597	Transfers-Out	-	-	524,105	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	1,785	-
581, 582	Other Uses	-	250,000	-	-
Total Other Decreases in Fund Resources:		<u>1,663,891</u>	<u>4,248,542</u>	<u>6,709,543</u>	<u>607,569</u>
Increase (Decrease) in Cash and Investments:		3,159	(1,238,413)	(1,079,897)	21,040
Ending Cash and Investments					
5081000	Reserved	-	-	719,177	-
5088000	Unreserved	89,905	1,852,071	4,669,691	168,160
Total Ending Cash and Investments		89,905	1,852,071	5,388,868	168,160

City of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

	423 Golf Course Fund	500 Equipment Rental	540 PW Admin	555 Engineering Services
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	42,296	714,117	26,226
388 / 588	Net Adjustments	-	-	210,781
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	-	1,270,799	553,053
350	Fines and Penalties	-	-	955,678
360	Miscellaneous Revenues	8,648	14,227	7,860
Total Revenues:		8,648	1,285,026	560,913
Expenditures				
510	General Government	-	290,977	-
520	Public Safety	-	-	-
530	Utilities	-	-	525,021
540	Transportation	-	493,519	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	23,216	-	-
Total Expenditures:		23,216	784,496	525,021
Excess (Deficiency) Revenues over Expenditures:		(14,568)	500,530	35,892
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	905,111	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	905,111	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	619,994	-
591-593, 599	Debt Service	-	-	1,009,031
597	Transfers-Out	-	-	33,271
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		-	619,994	33,271
Increase (Decrease) in Cash and Investments:		(14,568)	785,647	2,621
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	27,728	1,499,764	28,847
Total Ending Cash and Investments		27,728	1,499,764	28,847
				159,548

City of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		<u>595</u> <u>Unemployment</u> <u>Self-Insurance</u>
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	24,832
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	246
Total Revenues:		<u>246</u>
Expenditures		
510	General Government	32,835
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>32,835</u>
Excess (Deficiency) Revenues over Expenditures:		(32,589)
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	32,835
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>32,835</u>
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		<u>-</u>
Increase (Decrease) in Cash and Investments:		246
Ending Cash and Investments		
5081000	Reserved	-
5088000	Unreserved	25,078
Total Ending Cash and Investments		<u>25,078</u>

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, 2019

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Private-Purpose Trust	Custodial
308	Beginning Cash and Investments	482,864	246,381	2,549	233,934
388 & 588	Net Adjustments	(238,599)	-	(2,549)	(236,050)
310-390	Additions	120,105	38,299	-	81,806
510-590	Deductions	106,060	25,809	-	80,251
	Net Increase (Decrease) in Cash and Investments:	14,045	12,490	-	1,555
508	Ending Cash and Investments	258,310	258,871	-	(561)

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, 2018

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Private-Purpose Trust	Custodial
308	Beginning Cash and Investments	312,008	231,925	2,549	77,534
388 & 588	Net Adjustments	-	-	-	-
310-390	Additions	327,329	36,686	-	290,643
510-590	Deductions	156,473	22,230	-	134,243
	Net Increase (Decrease) in Cash and Investments:	170,856	14,456	-	156,400
508	Ending Cash and Investments	482,864	246,381	2,549	233,934

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, 2019**

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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated.

The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund (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.

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.

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.

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):

Pension funds are used to report fiduciary activities for pension and Other Post-Employment Benefits (OPEB) plans administered through a trust. 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:

These funds report all trust arrangements under which principal and income benefit individuals, private organizations and other governments. The City currently does not have any of these funds.

Custodial Funds (Funds 631):

These funds are used to account for assets that the city holds on behalf of others in a custodial capacity. The City's custodial (Fund 631) is used for miscellaneous pass through deposits.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law the City of Port Townsend 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. Cash and Investments

See Note 3 – *Deposits and Investments*

D. 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 ensure security of all assets.

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 or infrastructure. The project may include design, permitting, environmental analysis, land acquisition, construction, landscaping, site improvements, initial furnishings, and equipment.

E. 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. Payments related to leave are recognized when paid. The compensated absence balances decreased by \$54,529 from 2018 to 2019, ending at \$473,073 for the year.

F. Long-Term Debt

See Note 5 – *Debt Service Requirements*

G. 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 of \$688,212 as of December 31, 2019. 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 – BUDGET COMPLIANCE

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 2019			
	Final Appropriated Amounts	Actual Expenditures	Variance
General	\$ 10,286,457	\$ 10,166,384	\$ 120,073
Street	\$ 930,573	\$ 813,828	\$ 116,745
Library	\$ 1,161,673	\$ 1,108,971	\$ 52,702
Real Estate Excise Tax Fund	\$ 510,000	\$ 510,000	\$ -
Lodging Tax	\$ 573,536	\$ 544,168	\$ 29,368
Fire & EMS Service	\$ 2,415,000	\$ 2,403,458	\$ 11,542
Affordable Housing Fund	\$ 10,000	\$ -	\$ 10,000
Community Development Block Grants	\$ 15,000	\$ 3,315	\$ 11,685
Community Services	\$ 2,241,633	\$ 2,200,006	\$ 41,627
GO Debt Service	\$ 1,689,855	\$ 1,683,251	\$ 6,604
General Capital Improvement Funds	\$ 4,669,827	\$ 3,109,005	\$ 1,560,822
Water/Sewer Utility Funds	\$ 11,570,291	\$ 10,087,420	\$ 1,482,871
Storm water Operations & Storm Capital Funds	\$ 2,064,150	\$ 1,324,103	\$ 740,047
Golf Course Fund	\$ 24,229	\$ 24,162	\$ 67
Equipment Rental	\$ 1,072,310	\$ 967,148	\$ 105,162
Public Work & Admin	\$ 594,272	\$ 508,692	\$ 85,580
Engineering Service Fund	\$ 982,310	\$ 884,498	\$ 97,812
Unemployment Self Insurance	\$ 20,000	\$ 668	\$ 19,332
Firemen's Pension	\$ 26,179	\$ 25,809	\$ 370
Custodial Funds	\$ -	\$ 319,023	\$ (319,023)
TOTAL	\$ 40,857,295	\$ 36,683,910	\$ 4,173,385

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.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits and investments by type at December 31, 2019 are as follows:

Type of Deposit or Investment	City's own deposits and investments	Deposits and investments held by the city as a custodian for other governments or organization	Total
Bank Deposits	\$ 2,703,219	\$ 62,023	\$ 2,765,242
Certificates of Deposit	-	-	-
Local Government Investment Pool	7,690,336	196,287	7,886,623
U.S. Government Securities	2,557,606	-	2,557,606
Total	\$ 12,951,161	\$ 258,310	\$ 13,209,471

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

Investments in the State Local Investment Pool (LGIP)

The city is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Investments in U.S. Government Securities

The city has invested a portion of the water and sewer utility funds in U.S. Government Securities at U.S. Bank, administered by ProEquities Inc., which is registered with the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB). ProEquities Inc. is subject to the regulations and rules on municipal securities established by the SEC and MSRB. U.S. Government Securities are reported at original cost. The weighted average maturity of these securities is 2.87 years.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The city's deposits are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the city or its agent in the government's name.

NOTE 4 – 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 received by the city. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied.

The city's regular levy for 2019 was \$1.41735 per \$1,000 on assessed valuation of \$1,655,086,482 for a total regular levy of \$2,345,852.

A Library LID lift was approved by voters in 2008 to be initially phased in over 2009-2011. For 2019 the library levy was \$0.65929 per \$1,000 on assessed valuation of \$1,655,086,482 for a total levy of \$1,091,188.

Voters approved a Fire LID lift in 2012. For 2019 the Fire LID lift was \$0.43541 per \$1,000 on assessed valuation of \$1,655,086,482 for a tax amount of \$720,652.

The city also has a special levy for Emergency Medical Services (EMS). The EMS levy rate was voter approved in 2010 to \$0.46608 per \$1,000 on assessed valuation of \$1,655,086,482 for a total levy of \$771,413 in 2019.

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 2019 was \$0.09247 per \$1,000 on assessed valuation of \$1,622,060,005 for a total levy of \$149,999.

On February 12, 2019, the voters of Port Townsend and those in the East Jefferson Fire Rescue district approved the annexation of the City of Port Townsend into Fire Protection District No. 1, with voter approval at 69.28% and 67.74%, respectively. Prior to annexation the City's fire services were funded through a Fire levy lid lift and a contribution of approximately \$908,000 from the City's General Fund. The City also has an EMS Levy that has been in place since 2010 to fund emergency response and transport services. With annexation and starting in 2019 for the 2020 tax year, the City will no longer have either the separate Fire or EMS levy. The City retains its full General property tax authority.

The City Council has put in place a means to limit its authority to levy the full General levy property tax

for a period of five years. While the City Council cannot bind a future Council forever from doing its duties, it can limit what a future Council can do for a limited period of time. In this case, the Council has adopted an enforceable policy that limits the Council's tax authority. Resolution 18-052 provides that the City will not assess any of the \$908,000 increase in 2020 (the first year it would go into effect if annexation is approved). Thereafter starting in 2021 through 2024 the Council will have limited authority as provided for by the policy. The policy requires that any amount of the \$908,000 be phased in at a rate not to exceed 33% per each year starting in 2021. Further, it restricts what the money can be used for as outlined in the adopted policy.

The City's policy also has a transparency provision that includes enhanced public notice and public process. In addition to the regular public process for the annual property tax levy actions by the City Council, the policy requires a separate public notice and process starting in June of preceding year for the City Council to consider using any of the \$908,000 starting in 2021 through 2022 (note there is no levy allowed in 2020). Beginning in June of 2020, the City Manager is required to submit a proposal regarding any decision to use any of the \$908,000. This will include whether to levy nothing at all or any portion thereof consistent with the annual policy limits. The City Manager shall also include the proposed use of the taxes to City Council. It is up to the City Council to accept or modify the City Manager's proposal. The City Council prior to acting shall announce its intentions and provide an enhanced public notice of its intent. Based upon the City Council's findings, following public input, the City Council will instruct the City Manager to include within the budget to be submitted for the following year their recommendation as it relates to the \$908,000. This can also include a recommendation to not levy any of the \$908,000.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of 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 2019. The debt service payments for the year being reported and future payment requirements, including interest, are listed in the table below. Schedule 09 also includes liabilities for compensated absences (see Note 1E) and pension liabilities (see Note 6).

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 prior to Fiscal Year 2018. 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.

DEBT SERVICE SCHEDULE						
Year	G.O. Bonds	G.O. Bond Anticipation Line of Credit	Revenue Bond Anticipation Line of Credit	Revenue Bonds	Other Debt	Total Debt Service
2019	\$1,677,451	\$120,340	\$56,996	\$0	\$1,492,724	\$3,347,512
2020	\$1,704,789	\$886,925	\$1,910,500	\$0	\$1,423,440	\$5,925,654
2021	\$1,701,139	\$0	\$0	\$0	\$1,414,346	\$3,115,485
2022	\$1,708,389	\$0	\$0	\$0	\$1,349,975	\$3,058,364
2023	\$1,679,239				\$1,274,456	\$2,953,695
2024-2028	\$8,405,414	\$0	\$0	\$0	\$6,041,364	\$14,446,779
2029-2033	\$7,808,282	\$0	\$0	\$0	\$5,128,407	\$12,936,689
2034-2038	\$2,949,882	\$0	\$0	\$0	\$2,690,128	\$5,640,010
2039-2042	\$92,812	\$0	\$0	\$0	\$0	\$92,812
Total	\$27,727,397	\$1,007,265	\$1,967,496	\$0	\$20,814,840	\$51,516,998

In 2019, the City Council authorized a Limited General Obligation Bond Anticipation Note (BAN) for \$1,500,000. The BAN line of credit interest rate is fixed at 2.75% per annum. The 2019 BAN was used to repay the May 31, 2019 maturing BAN, which had a balance of \$978,000. The city also made a principal payment of \$108,000 leaving a balance of \$870,000 as of December 31, 2019. The maturity date of the line of credit is June 1, 2021.

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 funded 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. The City applied to S&P Global Ratings (S&P) for a rating on this bond issue. The rating analysis with S&P covered 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 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 2018, the city had an outstanding draw on the line of credit of \$1,862,500, and the interest rate was 3.25%. The maturity date of the line of credit is March 1, 2021. The line of credit will allow the City to pay construction invoices per contract terms while awaiting reimbursement from state and federal programs.

In 2018, the City issued \$834,000 in Limited Tax General Obligation Bonds to provide funding for the construction of eight low-income rental housing units owned and operated by Homeward Bound, a Washington non-profit corporation. The bond is being repaid through a Promissory Note and Security Agreement with Homeward Bound.

Proprietary Long-Term Debt currently outstanding as of December 31, 2019 is as follows:

PROPRIETARY LONG TERM DEBT					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
2016	Utility Capital Revenue Bond Anticipation Note Line of Credit for Water/ Sewer improvements	\$1,862,500	Prime rate minus 2.25% interest rate; cannot be less than 1.25%	3/1/2021	\$1,862,500
2017	DOE - Wastewater Facility - Outfall Project	\$225,091	2.00%	7/31/2040	\$225,091
2018	CERB - Regional Stormwater Facility	\$489,860	3.00%	7/31/2038	\$489,860
Total					\$2,577,451

General Obligation Debt currently outstanding as of December 31, 2019 is as follows:

G.O. LONG TERM OUTSTANDING DEBT					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
2010	Limited G.O. Bonds for street, sidewalk, utilities and historic district	\$3,740,000	2.30% - 5.00%	12/1/2030	\$2,950,000
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	\$2,175,000
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	\$2,835,000
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
2018	Limited G.O. Taxable Bonds to provide funding to the Homeward Bound housing project	\$834,000	4.35%	5/22/2040	\$834,000
2019	Limited G.O. Bond Anticipation Note (Line of Credit) for capital improvements at the Mountain View campus and other general capital project costs (Formerly 2014 BAN)	\$1,500,000	2.75%	6/1/2021	\$870,000
Total					\$19,879,000

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 six 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, 2019, 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
1999	PWTF Loan: Gaines Street Lift Station; San Juan Street Trunk Line	\$1,434,365	1.00%	6/1/2019	\$0
2001	PWTF Loan: Wastewater Treatment Outfall Expansion; Trunk Sewer Line Replacement	\$1,153,350	0.50%	6/1/2021	\$110,553
2002	PWTF Loan: Morgan Hill Water System Improvements	\$1,263,453	0.50%	6/1/2022	\$200,105
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	\$244,288
2012	PWTF Loan: City Lake Repair	\$1,000,000	0.25%	6/1/2031	\$631,578
2012	PWTF Loan: Mandated LT2 Water Treatment Facility	\$1,896,000	0.50%	6/1/2031	\$1,343,057
2012	DWSRF Loan: LT2 Federally Mandated Water Treatment Facility	\$3,071,521	1.50%	10/1/2036	\$2,627,468
2013	PWTF Loan: 5 MG Reservoir Replacement	\$1,258,394	0.50%	6/1/2032	\$975,813
2013	PWTF Loan: UV Disinfection	\$3,942,278	0.50%	6/1/2032	\$3,204,035
2014	DWSRF Loan: Replacement for Primary 5MG Reservoir with Booste ^[1]	\$4,596,320	1.00%	10/1/2037	\$3,986,670
2015	DWSRF Loan: Mandated LT2 Water Treatment Facility ^[2]	\$3,537,275	1.00%	10/1/2037	\$3,183,547
Total					\$16,507,114

NOTE 6 – 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.

At June 30, 2019 (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	0.040129%	\$1,543,102.51
PERS 2 / 3	0.051811%	\$503,260.97
<i>Total Net Pension Liability (Sch 09)</i>		\$2,046,363.48

	Allocation %	Liability (Asset)
LEOFF 1	0.012331%	-\$243,735.90
LEOFF 2	0.039301%	-\$910,483.52
<i>Net pension Assets</i>		-\$1,154,219.42

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. Firemen's Pension Trust Fund/Plan

Plan Description. The City is the administrator of the Firemen's Pension Fund/Plan which is closed, single-employer, defined benefit pension plan that was established in conformance with the Revised Code of Washington (RCW) Chapters 14.16, 14.18 and 41.20. The plan is limited to full-time and fully compensated firefighters who were hired prior to the establishment of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) on March 1, 1970.

Through the LEOFF Act, the State undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970. Firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the customary and reasonable cost of necessary medical expenses of the retiree for life.

Pre-LEOFF supplemental pension payments are based upon formulas using the City's current compensation levels attached to the employee's rank at retirement. In the event the pension paid by the State falls short of what the retiree should receive based upon the formula, the City pays the difference. Should the retiree receive more from the State than would result from the application of the formula, no adjustments or paybacks are requested. The system/plan is shown as a trust fund in the financial statement of the City.

As of December 31, 2019, membership consisted of two (2) pre-LEOFF firefighter retirees.

Funding Policy. Under the State law, the Firefighter's Pension Plan is funded from regular property tax levies at \$0.225 per \$1,000 assessed valuation, interest earnings, and City contributions required to meet projected future pension obligations.

All costs associated with the pre-LEOFF firefighter retirees are accounted for in the Firemen's Pension Trust Fund.

In 2019, the Firemen’s Pension Trust Fund received a total of \$38,299 contributions as follows:

	<u>2019</u>
Contributions:	
Contribution from General Fund – Property Tax	\$ 34,235
Investment Interest	<u>4,064</u>
Total Funding	<u>\$ 38,299</u>

A formal actuarial valuation study has not been done in recent years; however, based on the supplemental pension benefits paid over the last ten years coupled with consideration of the ages of the remaining plan members, the estimated funding requirements for future supplemental pension benefits as of December 31, 2019 is estimated at \$3,216. This future pension obligation amount is not reported on the Schedule 09, as the Firemen’s Pension Fund/Plan has net pension asset as illustrated below.

The total cash and investment balance in the Firemen’s Pension Fund as of December 31, 2019 is \$258,871.

City of Port Townsend Firemen’s Pension Trust Fund Assets (Liabilities)
As of December 31, 2019

	<u>2019</u>
Total Fund Asset (Cash & Investments)	\$ 258,871
Less Estimated Future Supplemental Pension Obligations	<u>(3,216)</u>
Net Fund Asset Available for Costs of Medical Benefits	<u>\$ 255,655</u>

NOTE 7 – 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 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 163 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 \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. 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 sublimits. 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 sublimits.

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, reinsurance and other 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 8 – CONTINGENCIES AND LITIGATION

In the opinion of management, the City’s insurance program (see Note 7) and self-insurance fund (see Note 10) are adequate to pay all known or pending claims.

NOTE 9 – INTERFUND LOANS

In 2019, the City Council authorized, through Resolution 19-093 on December 2, 2019, an interfund loan from the Transmission Line Replacement Fund to the Community Services Fund regarding resolution 19-054 on June 13, 2019 authorizing a contract with BERK Consulting, Inc. to develop a parks, recreation, and open space (PROS) plan for the City of Port Townsend. This interfund loan will be repaid by future appropriations to the Community Services Fund, no later than December 31, 2022. This \$90,000 loan is the only outstanding interfund loan as of December 31, 2019.

Loan Reference	Borrowing Fund	Lending Fund	Balance 1/1/19	2019 Repayments	New Loans	Balance 12/31/2019
Parks PROS Plan	Community Services Fund	Transmission Line (417)	\$ -	\$ -	\$ 90,000	\$ 90,000
		TOTAL	\$ -	\$ -	\$ 90,000	\$ 90,000

NOTE 10 – 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, 2019, the fund had a balance of \$25,474 as compared to the prior year ending Fund balance of \$25,078.

NOTE 11 – 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 12 – OTHER POST EMPLOYMENT BENEFITS

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the city as required by RCW 41.26. The plan pays for 100% of eligible retirees’ healthcare costs on a pay-as-you-go basis. As of December 31, 2019, the plan had seven members, all retirees. As of December 31, 2019, the city’s total OPEB liability was \$2,771,711, as calculated using the alternative measurement method. For the year ended December 31, 2019, the city paid \$51,957 in benefits.

NOTE 13 – CONSTRUCTION COMMITMENT

The City of Port Townsend has no active construction projects as of December 31, 2019. Total construction commitment as of the end of the year totaled \$258,379. A summary table of those commitments is below:

TABLE OF CONSTRUCTION COMMITMENTS - 2019					
PROJECT	CONTRACTOR	PROJECT PHASE	CONTRACT AMOUNT	PAID TO DATE	REMAINING CONTRACT
Rainier Regional Stormwater Facility	AHBL	Design	233,742	212,447	21,295
Rainier Regional Stormwater Facility	Van Aller Surveying	Design	12,372	9,968	2,404
Sewer Outfall Replacement	CH2MHill Engineers	Design	544,727	327,404	217,323
Library Restrooms and Windows	Terrapin Architecture, P.C.	Design	28,000	10,643	17,357
		TOTAL	\$818,841	\$560,462	\$258,379

NOTE 14 – 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, 2019, 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 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

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

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

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 15 – COMPONENT UNIT(S), JOINT VENTURES, AND RELATED PARTIES

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 2019, the City provided \$25,000 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.

NOTE 16 – OTHER DISCLOSURES

In 2019, a prior period adjustment was made for \$280,891. \$238,599 was related to changes in generally accepted accounting principles regarding the fund types, specifically, Fiduciary Funds. \$42,292 was related to receiving a refund for a vendor overpayment on a 2018 construction project.

NOTE 17 – SUBSEQUENT EVENTS

A. Local Sales & Use Tax for Affordable & Supportive Housing

In January 2020, the City Council adopted Ordinance 3244 Adopting Legislation to Authorize a Sales and Use Tax for Affordable and Supportive Housing in Accordance with Substitute House Bill 1406 (SHB 1406). This ordinance will authorize the city to impose a tax of 0.073% to be used for affordable housing. The tax is a credit against the state sales tax rate of 6.5%, so it will not increase the tax rate for City consumers. The tax may remain in effect for 20 years. The City's annual share of this tax is estimated at \$21,000. The City Council also authorized Amendment 1 to its Interlocal Agreement with Jefferson County to manage the SHB 1406 revenues and expenditures under the same process and structures as the recording fee funds (178 and 179 funds). The SHB 1406 will be accounted and reported separately; the City will receive annual reporting from the County on the revenues and expenditures to SHB 1406 funds.

B. COVID-19

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

As of the filing of this annual report, the duration of the emergency is unknown. Due to the stay home order and the cancellation of many public events and gatherings in the City for 2020, City management staff is projecting a decline in revenues in some key areas. The City Manager has instituted temporary furloughs, hiring freezes of certain positions and budget reductions in discretionary spending. State and Federal funding resources may become available to assist local governments with this emergency.

The length of time these measures will be in place, and the full extent of the financial impact on the city is unknown at this time.

C. Release of Promissory Note and Security Agreement

On October 28, 2020, the City executed a Release Agreement with Homeward Bound, a Washington non-profit corporation. The agreement released Homeward Bound of all their obligations, including repaying the City the principal amount of \$834,000 under a Promissory Note dated December 10, 2018 related to constructing and owning eight low-income rental housing units, which the City provided funding through a 2018 bond issuance. The Release Agreement also transferred all the rights, title, and interest of the associated property to the City.

D. Issuance of Debt

In November 2020, the City issued a Limited Tax General Obligation and Refunding Bond in the principal amount of \$3,658,350. The proceeds were used to refund the outstanding 2010 Limited Tax General Obligation Bonds, to repay the outstanding 2019 Limited Tax General Obligation Bond Anticipation Note, and to pay the costs to issue the bond. The new issuance was privately placed with Kitsap Bank of Port Orchard, WA. The \$2,753,800 of proceeds for refunding maintain the same maturity date of 12/1/2030,

but at a significantly lower average interest rate of 1.54%. The remainder of \$904,550 matures on 12/1/2040 and carries an average interest rate of 2.02%.

In November 2020, the City issued a Water and Sewer Revenue Bond in the principal amount of \$1,914,980. The proceeds were used to pay part of the cost of constructing water system improvements, to repay the City's 2016 Water and Sewer Revenue Bond Anticipation Note, and to pay the costs to issue the bond. The new issuance was privately placed with Kitsap Bank of Port Orchard, WA. The bond matures on 12/1/2040 and carries an average interest rate of 2.16%.

City of Port Townsend **Notes to the Financial Statements** **For the Year Ended December 31, 2018**

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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated.

The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund (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.

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.

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.

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):

Pension funds are used to report fiduciary activities for pension and OPEB plans administered through a trust. 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:

These funds report all trust arrangements under which principal and income benefit individuals, private organizations and other governments. The City currently does not have any of these funds.

Custodial Funds (Funds 613 – 699):

These funds are used to account for assets that the city holds on behalf of others in a custodial capacity. The City's custodial funds include Refundable Deposits (Fund 632) used for performance bonds and other miscellaneous deposits, Agency Fund (Fund 631) used for miscellaneous pass through deposits, and the Memorial Fund (Fund 633) used to account for assets and donations to the City for general public benefit. Funds coming into the Memorial Fund are managed in accord with any conditions and terms imposed by the donor making the gift.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City of Port Townsend 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. Cash and Investments

See Note 3 – *Deposits and Investments*

D. 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.

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 or infrastructure. The project may include design, permitting, environmental analysis, land acquisition, construction, landscaping, site improvements, initial furnishings, and equipment.

E. 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. Payments related to leave are recognized when paid. The compensated absence balances increased by \$16,203 from 2017 to 2018, ending at \$527,602 for the year.

F. Long-Term Debt

See Note 5 – *Debt Service Requirements*

G. 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 of \$719,177 as of December 31, 2018. 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 – BUDGET COMPLIANCE

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 2018			
	Final Appropriated Amounts	Actual Expenditures	Variance
General	\$ 9,396,000	\$ 9,222,339	\$ 173,661
Street	\$ 1,015,710	\$ 990,144	\$ 25,566
Library	\$ 1,127,585	\$ 1,103,780	\$ 23,805
Real Estate Excise Tax Fund	\$ 540,000	\$ 540,000	\$ -
Lodging Tax	\$ 547,338	\$ 541,394	\$ 5,944
Fire & EMS Service	\$ 2,385,276	\$ 2,369,469	\$ 15,807
Affordable Housing Fund	\$ 10,000	\$ -	\$ 10,000
Community Development Block Grants	\$ 40,000	\$ 40,000	\$ -
Community Services	\$ 2,150,776	\$ 2,038,993	\$ 111,783
GO Debt Service	\$ 1,666,892	\$ 1,665,391	\$ 1,501
General Capital Improvement Funds	\$ 7,587,001	\$ 6,646,797	\$ 940,204
Water/Sewer Utility Funds	\$ 15,251,514	\$ 15,017,206	\$ 234,308
Storm water Operations & Storm Capital Funds	\$ 1,378,574	\$ 1,358,449	\$ 20,125
Golf Course Fund	\$ 40,419	\$ 23,216	\$ 17,203
Equipment Rental	\$ 1,444,064	\$ 1,404,492	\$ 39,572
Public Work & Admin	\$ 561,145	\$ 558,292	\$ 2,853
Engineering Service Fund	\$ 1,065,865	\$ 1,009,030	\$ 56,835
Unemployment Self Insurance	\$ 46,416	\$ 32,835	\$ 13,581
Firemen's Pension	\$ 27,140	\$ 22,230	\$ 4,910
Agency Funds	\$ -	\$ 134,242	\$ (134,242)
Memorial Fund	\$ -	\$ -	\$ -
TOTAL	\$ 46,281,715	\$ 44,718,300	\$ 1,563,415

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.

NOTE 3 – DEPOSITS 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 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.

The city has two investment instruments:

1. Deposits in the Local Government Investment Pool administered by the Washington Public Deposit Protection Commission. The monthly interest on these investments is prorated to the various funds based on participation and fund balance.

2. A portion of deposits for water and sewer utility funds are invested in U.S. Government securities at U.S. Bank, administered by ProEquities Inc., which is registered with the U.S. Securities and Exchange Commission (“SEC”) and the Municipal Securities Rulemaking Board (“MSRB”). ProEquities Inc. is subject to the regulations and rules on municipal securities established by the SEC and MSRB. The interest is recorded in the water and sewer fund when received. The weighted average maturity of these securities is 2.20 years.

Investments are reported at fair value. Investment activity for the year ending December 31, 2018 is listed below:

City of Port Townsend			
State of Washington			
Local Government Investment Pool			
1/1/2018	Beginning Balance		\$ 6,547,911
	Gross Investment Earnings	\$ 151,117	
	Administrative Fees	<u>\$ (555)</u>	
	Net Investment Earnings		\$ 150,562
	Deposits	\$ 2,000,000	
	Withdrawals	<u>\$ (500,000)</u>	
			\$ 1,500,000
12/31/2018	Ending Balance (Market Value)		<u>\$ 8,198,473</u>

City of Port Townsend			
US Bank Investment Account			
1/1/2018	Beginning Balance		\$ -
	Gross Investment Earnings	\$ 5,383	
	Administrative Fees	<u>\$ (81)</u>	
	Net Investment Earnings		\$ 5,302
	Deposits	\$ 2,033,596	
	Withdrawals	<u>\$ -</u>	
			\$ 2,033,596
12/31/2018	Ending Balance (Market Value)		<u>\$ 2,038,898</u>

NOTE 4 – 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 received by the city. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied.

The city's regular levy for 2018 was \$1.50579 per \$1,000 on assessed valuation of \$1,528,558,379 for a total regular levy of \$2,301,703.

A Library LID lift was approved by voters in 2008 to be initially phased in over 2009-2011. For 2018 the library levy was \$0.70021 per \$1,000 on assessed valuation of \$1,528,558,379 for a total levy of \$1,070,312.

Voters approved a Fire LID lift in 2012. For 2018 the Fire LID lift was \$0.46243 per \$1,000 on assessed valuation of \$1,528,558,379 for a tax amount of \$706,865.

The city also has a special levy for Emergency Medical Services (EMS). The EMS levy rate was voter approved in 2010 to \$0.49492 per \$1,000 on assessed valuation of \$1,528,558,379 for a total levy of \$756,527 in 2018.

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 2018 was \$0.10019 per \$1,000 on assessed valuation of \$1,497,191,373 for a total levy of \$149,999.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of 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 2018. The debt service payments for the year being reported and future payment requirements, including interest, are listed in the table below. Schedule 09 also includes liabilities for compensated absences (see Note 1E) and pension liabilities (see Note 6).

DEBT SERVICE SCHEDULE						
Year	G.O. Bonds	G.O. Bond Anticipation Line of Credit	Revenue Bond Anticipation Line of Credit	Revenue Bonds	Other Debt	Total Debt Service
2018	\$1,663,891	\$0	\$639,272	\$21,000	\$1,526,298	\$3,850,461
2019	\$1,683,854	\$997,287	\$1,903,500	\$0	\$1,457,016	\$6,041,657
2020	\$1,707,551	\$0	\$0	\$0	\$1,351,780	\$3,059,331
2021	\$1,703,901	\$0	\$0	\$0	\$1,342,590	\$3,046,491
2022	\$1,711,151	\$0	\$0	\$0	\$1,278,124	\$2,989,275
2023-2027	\$8,418,715	\$0	\$0	\$0	\$5,774,007	\$14,192,722
2028-2032	\$8,123,540	\$0	\$0	\$0	\$5,293,132	\$13,416,672
2033-2037	\$4,280,090	\$0	\$0	\$0	\$2,685,660	\$6,965,750
2038-2041	\$161,607	\$0	\$0	\$0	\$0	\$161,607
Total	\$29,454,300	\$997,287	\$2,542,772	\$21,000	\$20,708,608	\$53,723,967

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 prior to Fiscal Year 2018. 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 2018, the City issued \$834,000 in Limited Tax General Obligation Bonds to provide funding for the construction of eight low-income rental housing units owned and operated by Homeward Bound, a Washington non-profit corporation. The bond is being repaid through a Promissory Note and Security Agreement with Homeward Bound.

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 funded 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. The City applied to S&P Global Ratings (S&P) for a rating on this bond issue. The rating analysis with S&P covered 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 initiated a draw of \$978,000 on this line of credit in 2018. 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 2.87% as of December 31, 2018.

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 2018, the city had an outstanding draw on the line of credit of \$1,862,500, and the interest rate was 3.25%. The maturity date of the line of credit is March 1, 2021. 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, 2018 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	\$0
2016	Utility Capital Revenue Bond Anticipation Note Line of Credit for Water/ Sewer improvements	\$1,862,500	Prime rate minus 2.25% interest rate; cannot be less than 1.25%	3/1/2021	\$1,862,500
2017	DOE - Wastewater Facility - Outfall Project	\$2,667	2.00%	6/30/2018	\$2,667
2018	CERB - Regional Stormwater Facility	\$269,182	3.00%	7/31/2036	\$269,182
Total					\$2,134,349

General Obligation Debt currently outstanding as of December 31, 2018 is as follows:

G.O. LONG TERM OUTSTANDING DEBT					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
2010	Limited G.O. Bonds for street, sidewalk, utilities and historic district	\$3,740,000	2.30% - 5.00%	12/1/2030	\$3,155,000
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	\$2,680,000
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 12/31/2018 - 2.86805%	5/31/2019	\$978,000
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	\$3,020,000
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
2018	Limited G.O. Taxable Bonds to provide funding to the Homeward Bound housing project	\$834,000	4.35%	5/22/2040	\$834,000
Total					\$20,882,000

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 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 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, 2018, 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%	6/1/2018	\$0
1999	PWTF Loan: Gaines Street Lift Station; San Juan Street Trunk Line	\$1,434,365	1.00%	6/1/2019	\$59,594
2001	PWTF Loan: Wastewater Treatment Outfall Expansion; Trunk Sewer Line Replacement	\$1,153,350	0.50%	6/1/2021	\$165,829
2002	PWTF Loan: Morgan Hill Water System Improvements	\$1,263,453	0.50%	6/1/2022	\$266,807
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	\$291,098
2012	PWTF Loan: City Lake Repair	\$1,000,000	0.25%	6/1/2031	\$684,210
2012	PWTF Loan: Mandated LT2 Water Treatment Facility	\$1,896,000	0.50%	6/1/2031	\$1,454,978
2012	DWSRF Loan: LT2 Federally Mandated Water Treatment Facility	\$3,071,521	1.50%	10/1/2036	\$2,782,025
2013	PWTF Loan: 5 MG Reservoir Replacement	\$1,258,394	0.50%	6/1/2032	\$1,050,875
2013	PWTF Loan: UV Disinfection	\$3,942,278	0.50%	6/1/2032	\$3,450,499
2014	DWSRF Loan: Replacement for Primary 5MG Reservoir with Booste ^[1]	\$4,596,320	1.00%	10/1/2037	\$4,196,495
2015	DWSRF Loan: Mandated LT2 Water Treatment Facility ^[2]	\$3,537,275	1.00%	10/1/2037	\$3,360,411
Total					\$17,762,821

[1] - Received \$1,969,851 in loan forgiveness, included in 2018 Reductions on Schedule 09

[2] - Received \$1,515,975 in loan forgiveness, included in 2018 Reductions on Schedule 09

NOTE 6 – 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.

At June 30, 2018 (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	0.040890%	\$1,826,161.30
PERS 2 / 3	0.052499%	\$896,373.70
<i>Total Net Pension Liability (Sch 09)</i>		\$2,722,535.00

	Allocation %	Liability (Asset)
LEOFF 1	0.012124%	-\$220,111.46
LEOFF 2	0.039131%	-\$794,444.61
<i>Net pension Assets</i>		-\$1,014,556.07

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. Firemen's Pension Trust Fund/Plan

Plan Description. The City is the administrator of the Firemen's Pension Fund/Plan which is closed, single-employer, defined benefit pension plan that was established in conformance with the Revised Code of Washington (RCW) Chapters 14.16, 14.18 and 41.20. The plan is limited to full-time and fully compensated firefighters who were hired prior to the establishment of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) on March 1, 1970.

Through the LEOFF Act, the State undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970. Firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the customary and reasonable cost of necessary medical expenses of the retiree for life.

Pre-LEOFF supplemental pension payments are based upon formulas using the City's current compensation levels attached to the employee's rank at retirement. In the event the pension paid by the State falls short of what the retiree should receive based upon the formula, the City pays the difference. Should the retiree receive more from the State than would result from the application of the formula, no adjustments or paybacks are requested. The system/plan is shown as a trust fund in the financial statement of the City.

As of December 31, 2018, membership consisted of three (3) pre-LEOFF firefighter retirees.

Funding Policy. Under the State law, the Firefighter's Pension Plan is funded from regular property tax levies at \$0.225 per \$1,000 assessed valuation, interest earnings, and City contributions required to meet projected future pension obligations.

All costs associated with the pre-LEOFF firefighter retirees are accounted for in the Firemen's Pension Trust Fund.

In 2018, the Firemen’s Pension Trust Fund received a total of \$36,686 contributions as follows:

	<u>2018</u>
Contributions:	
Contribution from General Fund – Property Tax	\$ 34,235
Investment Interest	<u>2,451</u>
Total Funding	<u>\$ 36,686</u>

A formal actuarial valuation study has not been done in recent years; however, based on the supplemental pension benefits paid over the last ten years coupled with consideration of the ages of the remaining plan members, the estimated funding requirements for future supplemental pension benefits as of December 31, 2018 is estimated at \$9,958. This future pension obligation amount is not reported on the Schedule 09, as the Firemen’s Pension Fund/Plan has net pension asset as illustrated below.

The total cash and investment balance in the Firemen’s Pension Fund as of December 31, 2018 is \$246,381.

City of Port Townsend Firemen’s Pension Trust Fund Assets (Liabilities)
As of December 31, 2018

	<u>2018</u>
Total Fund Asset (Cash & Investments)	\$ 246,381
Less Estimated Future Supplemental Pension Obligations	<u>(9,958)</u>
Net Fund Asset Available for Costs of Medical Benefits	<u>\$ 236,423</u>

NOTE 7 – 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 160 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 \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 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 8 – CONTINGENCIES AND LITIGATION

In the opinion of management, the City's insurance program (see Note 7) and self-insurance fund (see Note 10) are adequate to pay all known or pending claims.

NOTE 9 – INTERFUND LOANS

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 was repaid when the city issued \$834,000 in Limited General Obligation Bonds in 2018. The city signed a promissory note and security agreement with Homeward Bound, CLT in 2018. The interfund loan payment to the Transmission Line Fund was made on December 13, 2018 leaving a balance of zero for interfund loans as of 12/31/2018.

Loan Reference	Borrowing Fund	Lending Fund	Balance 1/1/18	2018 Repayments	New Loans	Balance 12/31/2018
Homeward Bound	General Fund	Transmission Line (417)	\$250,000	\$250,000	\$0	\$0
		TOTAL	\$250,000	\$250,000	\$0	\$0

NOTE 10 – 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, 2018, the fund had a balance of \$25,078 as compared to the prior year ending Fund balance of \$24,832.

NOTE 11 – 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 12 – 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 \$51,801 was paid out for those benefits.

NOTE 13 – CONSTRUCTION COMMITMENT

The City of Port Townsend has three active construction projects as of December 31, 2018. Total construction commitment as of the end of the year totaled \$750,210. A summary table of those commitments is below:

TABLE OF CONSTRUCTION COMMITMENTS - 2018					
PROJECT	CONTRACTOR	PROJECT PHASE	CONTRACT AMOUNT	PAID TO DATE	REMAINING CONTRACT
Rainier Regional Stormwater Facility	AHBL	Design	151,921	80,716	71,204
Rainier Regional Stormwater Facility	Van Aller Surveying	Design	12,372	9,968	2,405
Outfall Replacement	CH2MHill Engineers	Design	249,825	116,485	133,340
SR 20 Pedestrian Walkway	PND ENG	Design	90,000	58,604	31,396
Jefferson Street	Van Aller Surveying	Design	16,145	15,065	1,081
Jefferson Street	Krazan & Associates	Construction	3,221	384	2,838
Jefferson Street	Seton	Construction	419,730	173,121	246,609
Visitor Center	SCJ Alliance	Design	188,852	39,876	148,976
Mountain View	Rollunda Architect	Design	172,882	167,688	5,194
Mountain View	Olympic Peninsula Construction	Construction	1,215,248	1,155,083	60,166
Library	Rollunda Architect	Design	110,203	96,779	13,424
Library	Interwest Construction	Construction	299,556	265,977	33,579
		TOTAL	\$2,929,954	\$2,179,744	\$750,210

NOTE 14 – 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, 2018, 257 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 2018, 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"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. 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 15 – SUBSEQUENT EVENTS

On February 12, 2019, the voters of Port Townsend and those in the East Jefferson Fire Rescue district approved the annexation of the City of Port Townsend into Fire Protection District No. 1, with voter approval at 69.28% and 67.74%, respectively. Prior to annexation the City's fire services were funded through a Fire levy lid lift and a contribution of approximately \$908,000 from the City's General Fund. The City also has an EMS Levy that has been in place since 2010 to fund emergency response and transport services. With annexation and starting in 2019 for the 2020 tax year, the City will no longer have either the separate Fire or EMS levy. The City retains its full General property tax authority.

The City Council has put in place a means to limit its authority to levy the full General levy property tax for a period of five years. While the City Council cannot bind a future Council forever from doing its duties, it can limit what a future Council can do for a limited period of time. In this case, the Council has adopted an enforceable policy that limits the Council's tax authority. Resolution 18-052 provides that the City will not assess any of the \$908,000 increase in 2020 (the first year it would go into effect if annexation is approved). Thereafter starting in 2021 through 2024 the Council will have limited authority as provided for by the policy. The policy requires that any amount of the \$908,000 be phased in at a rate not to exceed 33% per each year starting in 2021. Further, it restricts what the money can be used for as outlined in the adopted policy.

The City's policy also has a transparency provision that includes enhanced public notice and public process. In addition to the regular public process for the annual property tax levy actions by the City Council, the policy requires a separate public notice and process starting in June of preceding year for the City Council to consider using any of the \$908,000 starting in 2021 through 2022 (note there is no levy allowed in 2020). Beginning in June of 2020, the City Manager is required to submit a proposal regarding any decision to use any of the \$908,000. This will include whether to levy nothing at all or any portion thereof consistent with the annual policy limits. The City Manager shall also include the proposed use of the taxes to City Council. It is up to the City Council to accept or modify the City Manager's proposal. The City Council prior to acting shall announce its intentions and provide an enhanced public notice of its intent. Based upon the City Council's findings, following public input, the City Council will instruct the City Manager to include within the budget to be submitted for the following year their recommendation as it relates to the \$908,000. This can also include a recommendation to not levy any of the \$908,000.

NOTE 16 – 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 2018, the City provided \$25,000 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, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2010 Bond	12/1/2030	3,155,000	-	205,000	2,950,000
251.11	2012 Refunding Bond	12/1/2025	2,680,000	-	505,000	2,175,000
251.22	2015 Bond	12/1/2031	3,020,000	-	185,000	2,835,000
251.11	2017a Refunding Bond	12/1/2035	9,155,000	-	-	9,155,000
251.11	2017b Taxable Refunding Bond	12/1/2025	1,060,000	-	-	1,060,000
251.11	2018 Bond	5/22/2040	834,000	-	-	834,000
Total General Obligation Debt/Liabilities:			19,904,000	-	895,000	19,009,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.62	2019 BAN Line of Credit (Formerly 2014 BAN)	6/1/2021	978,000	-	108,000	870,000
263.62	2016 Utility Line of Credit	3/1/2021	1,862,500	-	-	1,862,500
263.88	1999 PWTF Loan Sewer	6/1/2019	59,594	-	59,594	-
263.88	2001 PWTF Loan Sewer	6/1/2021	165,829	-	55,276	110,553
263.88	2002 PWTF Loan Water	6/1/2022	266,807	-	66,702	200,105
263.82	2002 DOE Wastewater Loan	9/8/2024	291,012	-	46,724	244,288
263.88	2012 PWTF Loan City Lake	6/1/2031	684,210	-	52,632	631,578
263.82	2012 DWSRF LT2	10/1/2036	2,782,025	-	154,557	2,627,468
263.88	2012 PWTF Loan LT2	6/1/2031	1,454,978	-	111,921	1,343,057
263.88	2013 PWTF Loan UV Disinfection	6/1/2032	3,450,499	-	246,464	3,204,035
263.88	2013 PWTF Loan 5MG Reservoir	6/1/2032	1,050,875	-	75,062	975,813
263.82	2014 DWSRF Loan 5MG Reservoir	10/1/2038	4,196,495	-	209,825	3,986,670
263.82	2015 DWSRF Loan LT2	10/1/2037	3,360,411	-	176,864	3,183,547
263.82	2017 DOE Wastewater Loan	7/31/2040	2,667	222,424	-	225,091
263.84	2015 CERB Loan	7/31/2038	269,182	255,271	34,593	489,860
259.12	Compensated Absences		527,602	633,630	688,159	473,073
264.30	Net Pension Liability		2,722,535	783,363	1,459,535	2,046,363
264.40	OPEB Liability		-	2,771,711	-	2,771,711
Total Revenue and Other (non G.O.) Debt/Liabilities:			24,125,221	4,666,399	3,545,908	25,245,712
Total Liabilities:			44,029,221	4,666,399	4,440,908	44,254,712

**City of Port Townsend
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2010 Bond	12/1/2030	3,355,000	-	200,000	3,155,000
251.11	2012 Refunding Bond	12/1/2025	3,165,000	-	485,000	2,680,000
251.22	2015 Bond	12/1/2031	3,205,000	-	185,000	3,020,000
251.11	2017a Refunding Bond	12/1/2035	9,155,000	-	-	9,155,000
251.11	2017b Taxable Refunding Bond	12/1/2025	1,060,000	-	-	1,060,000
251.11	2018 Bond	5/22/2040	-	834,000	-	834,000
263.61	2014 BAN Line of Credit	5/31/2019	-	978,000	-	978,000
Total General Obligation Debt/Liabilities:			19,940,000	1,812,000	870,000	20,882,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.62	2016 Utility Line of Credit	3/1/2021	1,700,000	762,500	600,000	1,862,500
252.11	1978 Water Revenue Bond	3/1/2018	20,000	-	20,000	-
263.88	1998 PWTF Loan Water	6/1/2018	44,718	-	44,718	-
263.88	1999 PWTF Loan Sewer	6/1/2019	119,189	-	59,595	59,594
263.88	2001 PWTF Loan Sewer	6/1/2021	221,105	-	55,276	165,829
263.88	2002 PWTF Loan Water	6/1/2022	333,509	-	66,702	266,807
263.82	2002 DOE Wastewater Loan	9/8/2024	337,127	-	46,115	291,012
263.88	2012 PWTF Loan City Lake	6/1/2031	736,842	-	52,632	684,210
263.82	2012 DWSRF LT2	10/1/2036	2,917,945	-	135,920	2,782,025
263.88	2012 PWTF Loan LT2	6/1/2031	1,566,899	-	111,921	1,454,978
263.88	2013 PWTF Loan 5MG Reservoir	6/1/2032	1,103,985	21,952	75,062	1,050,875
263.88	2013 PWTF Loan UV Disinfection	6/1/2032	3,442,963	254,000	246,464	3,450,499
263.82	2014 DWSRF Loan 5MG Reservoir	10/1/2037	5,588,889	(1,171,526)	220,868	4,196,495
263.82	2015 DWSRF Loan LT2	10/1/2037	4,240,773	(703,498)	176,864	3,360,411
263.86	2017 DOE Wastewater Loan	12/31/2038	2,100	567	-	2,667
263.84	2015 CERB Loan	7/31/2036	-	269,182	-	269,182
259.12	Compensated Absences		511,399	658,066	641,863	527,602
264.30	Net Pension Liability		3,678,861	746,263	1,702,589	2,722,535
Total Revenue and Other (non G.O.) Debt/Liabilities:			26,566,304	837,506	4,256,589	23,147,221
Total Liabilities:			46,506,304	2,649,506	5,126,589	44,029,221

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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