

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Port Angeles
Clallam County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012341

Issue Date
August 11, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



**Washington State Auditor
Troy Kelley**

August 11, 2014

Council
City of Port Angeles
Port Angeles, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Clallam County
January 1, 2013 through December 31, 2013**

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Federal Summary

City of Port Angeles Clallam County January 1, 2013 through December 31, 2013

The results of our audit of the City of Port Angeles are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
97.056	Port Security Grant Program
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

**City of Port Angeles
Clallam County
January 1, 2013 through December 31, 2013**

1. The City does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	97.056 Port Security Grant Program
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Marine Exchange of Puget Sound
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Background

The City spent \$633,008 in federal grant funds during 2013 on various City projects to improve lighting for the port area of Port Angeles.

Federal requirements prohibit grant recipients from contracting with or making subawards to vendors who have been suspended or debarred from doing business with the federal government. The City is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The City can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the City may review the federal Excluded Parties List (EPLS) issued by the U.S. General Services Administration. This requirement must be met prior to entering into a contract with the vendor.

Description of Condition

We reviewed the City's internal controls and compliance with regulations over its Port Security Grant Program. The City did not have internal controls to ensure compliance with the suspension and debarment requirements.

Cause of Condition

Typically, contracts are awarded through the public works department, where systems are in place to check for suspension and debarment; however, this contract went through the community development department where there is no process in place to ensure compliance.

Effect of Condition and Questioned Costs

The City paid one vendor \$261,501 for lighting fixtures and poles and did not verify whether the vendor was suspended or debarred. This material weakness in internal controls increases the risk the City will enter into contracts with vendors who are suspended or debarred from receiving federal funds. Payments on contracts to suspended or debarred vendors would be unallowable and cause the City to repay the funding to the grantor.

We were able to verify the vendor had not been suspended or debarred and, therefore, we are not questioning costs for the payment.

Recommendation

We recommend the City ensure all departments making awards with federal funds establish internal controls to verify suspension and debarment status of all vendors prior to entering into contracts.

District's Response

The City greatly appreciates the efforts of the State Auditor's Office regarding the auditing and review of federal grant funded projects. We concur with the Audit Finding and have already taken steps to prevent re-occurrence of the issue in the future.

All construction contract awards will be processed through the City's Department of Public Works and Utilities. They have modified their procedures and checklist to include checking for suspension or disbarment regardless of the sources of funding to pay for construction contract. By requiring checking on all construction contract awards, we should be able to eliminate any confusion regarding whether or not the funding source required checking for suspension, or disbarment of the proposed contract recipient.

For non-construction contracts, we will be instituting a training program for all other departments that will highlight the requirement to check for disbarment or suspension for all contract awards greater than \$25,000, regardless of funding source. Departments will be required to submit to the Finance Department proof of the checking for suspension and disbarment as part of the contract approval process. The training should be complete by the end of August 2014.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows: ...

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Schedule of Audit Findings and Responses

City of Port Angeles Clallam County January 1, 2013 through December 31, 2013

2. **The City's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.**

Background

City Council members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the City to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the City's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal controls that when taken together, represent a material weakness:

- City staff did not adequately research how to appropriately record nonroutine transactions on the financial statements.
- The current review process over those responsible for preparing the financial statements was not effective in ensuring the financial statements are accurate and complete.

Cause of Condition

The City had processes in place to prepare financial reports; however, the City did not have adequate internal controls or appropriate supervision of staff work to ensure accurate financial statement preparation. In addition, the City did not allow sufficient time to review the financial statements.

Effect of Condition

The City's financial statements contained significant misstatements that were not detected by City management prior to submitting their completed statements. We identified the following misstatements in the original financial statements we received for audit:

- The Wastewater Utility Fund long-term debt was understated and nonoperating revenues were overstated by \$10 million. This resulted from the City recording proceeds from a debt issuance as nonoperating revenue rather than long-term debt.
- The General Fund liabilities were understated and the Capital Improvements Fund receivables were overstated by \$974,828 due to an incomplete adjusting journal entry.
- The Solid Waste Collection Utility Fund nonoperating revenue was understated by \$522,239 due to a posting error.

These errors were subsequently corrected by the City. In addition, we identified less significant errors and misstatements in the financial statements of which most were subsequently corrected.

Recommendation

We recommend City management take action to establish ongoing, consistent internal controls over its financial accounting and reporting, including the following:

- Require staff to adequately research and seek technical guidance for transactions to ensure the financial statements are prepared in compliance with Generally Accepted Accounting Principles (GAAP).
- Provide adequate oversight of the work for those responsible for preparation of the financial statements to ensure financial information is accurate, complete, and complies with financial reporting requirements.

City's Response

There are three components to this audit finding, and it is important to note that the City of Port Angeles self-disclosed the problems related to two of the three components. In addition, the City would also not that there was no impact to the citywide financial statement bottom line for items #1 and #2.

1. *\$10 million Wastewater fund long-term debt misstatement. When researched online, the SAO site advises the auditee to ask onsite auditors if immediate assistance is needed and this was done. City staff requested information from auditors on site, and were told how it was represented was correct prior to submission. Unfortunately, the answer received was incomplete causing the misstatement. This has been corrected.*

Resolution: Staff will more fully investigate the amounts prior to submission and will double check with the GFOA and SAO when

questions arise. In the future, staff will be more reluctant to ask onsite auditors if we need immediate assistance, despite the advice given on the SAO website.

- 2. Solid Waste Collection Utility understatement: This matter was brought forward by City staff and disclosed to the Auditor's office, it was not discovered by the State Auditor's Office personnel. This was also an overstatement in the Water fund by the same amount, caused by a typographical error when fund number 402 was entered into the journal account rather than fund number 404. Again, it is important to note that the citywide bottom line was correct. In addition, net proprietary was correct. This item has been corrected.*

Resolution: Staff will do a more thorough investigation and review of individual line amounts and double-check journal entries prior to entry.

- 3. General Fund liabilities understatement. This was an overstatement of liabilities in the Governmental Capital Improvement fund; however, citywide information was correct on both the State of NA and Changes in Revenues, Expenditure. Cash was received and posted on 12/31/2013 as pending by Customer Service into the General Fund, rather than the Capital Fund. The amount was not discovered as being posted in the incorrect fund until after the reconciliation of the AR amounts, and presentation of the financial statements. A question was asked concerning liabilities in the General Fund. Upon further review and research, City staff disclosed to the Auditor's Office that the amount should have been cleared and posted to the Capital Fund. This item has been corrected.*

Resolution: Staff will do more thorough investigation of individual pending amounts to ensure they are recorded to the correct fund.

The City does appreciate the efforts of the State Auditor's Office and looks forward to continuing a positive and fruitful relationship going forward for the benefit of the citizens of Port Angeles.

Auditor's Remarks

We appreciate the City's commitment to taking corrective action. We will review the corrective actions during the next scheduled audit. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. We reaffirm our finding.

Applicable Laws and Regulations

Government Auditing Standards, July 2007 Revision - Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

a. Significant deficiency: 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.

b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction, all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) manual - Part 3 Accounting Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:

Management and the governing body are responsible for the government's performance, compliance, and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management

Significant deficiency. 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.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**City of Port Angeles
Clallam County
January 1, 2013 through December 31, 2013**

Council
City of Port Angeles
Port Angeles, 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Angeles, Clallam County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 23, 2014. The prior year comparative information has been derived from the City's 2012 basic financial statements, on which we issued our report dated July 22, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2 to be material weaknesses.

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.

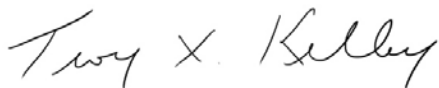
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



TROY KELLEY
STATE AUDITOR

July 23, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Port Angeles
Clallam County
January 1, 2013 through December 31, 2013**

Council
City of Port Angeles
Port Angeles, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Port Angeles, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

July 23, 2014

Independent Auditor's Report on Financial Statements

City of Port Angeles Clallam County January 1, 2013 through December 31, 2013

Council
City of Port Angeles
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Angeles, Clallam County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Angeles, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Capital Improvement Projects funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The prior year comparative information has been derived from the City's 2012 financial statements and, in our report dated July 22, 2013, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2012, from which such partial information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 32, pension trust fund information on page 99 and information on postemployment benefits other than pensions on page 100 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

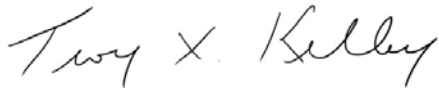
Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

July 23, 2014

Financial Section

**City of Port Angeles
Clallam County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

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Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – Governmental Funds – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual – 2013 and 2012
Statement of Revenues, Expenditures, and Changes in Fund Balances – Capital Improvement Projects Fund – Budget and Actual – 2013 and 2012
Statement of Net Position – Proprietary Funds – 2013 and 2012
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2013 and 2012
Statement of Cash Flows – Proprietary Funds – 2013 and 2012
Statement of Fiduciary Net Position – Fiduciary Funds – 2013 and 2012
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013 and 2012
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Firemen's Pension Plan – 2013
Schedule of Employer Contributions – Firemen's Pension Plan – 2013
Schedule of Funding Progress – Other Postemployment Benefits – LEOFF 1 – 2013
Schedule of Employer Contributions – Other Postemployment Benefits – LEOFF 1 – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Port Angeles' Comprehensive Annual Financial Report provides an overview of the City's financial activities for the year ended December 31, 2013, and for the City's financial position at December 31, 2013. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow.

Financial Highlights

- The assets of the City of Port Angeles exceeded its liabilities at December 31, 2013, resulting in a total government-wide net position of nearly \$235.7 million. Of this amount, \$52.7 million is unrestricted and therefore may be used to meet the government's ongoing obligations to citizens and creditors. This is an increase of \$4.4 million in citywide net position over 2012.
- On the Government-Wide Statement of Activities, investment earnings fell from \$640 thousand to \$138 thousand, a 78 percent decline due to lower interest rates.
- A total of 35 business-type Construction in Progress projects totaled \$30.4 million at year end. The two largest projects are the Combined Sewer Overflow (CSO) project at \$25.0 million, and the Advanced Metering project in Electric, Water, and Wastewater at a total of \$2.6 million. A total of 23 governmental projects totaled \$10.7 million including the Waterfront Development at a total of \$6.2 million and the Lauridsen Bridge at \$3.5 million.
- Citywide charges for services were \$64.6 million in 2013, compared to just under \$61.0 million in 2012. The Electric Utility increased \$1.3 million due to a combination of increased usage and rates. All other utilities, except for Medic I and Conservation, increased slightly for the same reason.
- Governmental funds revenue finished the year \$4.1 million more than 2012, an increase of 17 percent. This was mainly due to increased sales and utility tax revenues in the General fund, along with a one-time \$3.2 million grant for the Lauridsen Bridge project, and other transportation project grants.
- In the General Fund, total expenditures came in \$785.6 thousand below budget, mostly due to savings in personnel along with some repairs and maintenance performed in-house.
- General Fund revenues (including transfers in) were \$881 thousand more than expenditures and transfers out. This resulted in the General Fund ending balance increasing from approximately \$5.0 million to \$5.8 million.

Overview of the Financial Statements

The City's basic financial statements are presented in three parts: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report.

Government-wide financial statements

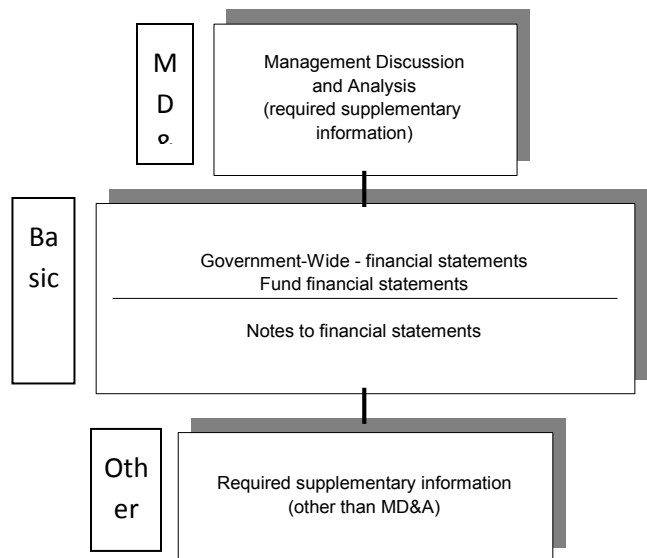
The **government-wide financial statements** are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities.

Governmental activities of the City include general government (finance, city manager, legal), public safety (police and fire), utilities and environment, economic environment, transportation, and culture and recreation. Governmental activities are primarily supported by taxes, charges for services, and grants.

The City’s business-type activities include electric, water, wastewater, solid waste collection, solid waste transfer station/landfill, stormwater, electric conservation, and medic one utilities. Business-type activities are self-supporting through user fees and charges, except medic one which also receives general fund support.

The **statement of net position** presents information on all of the City of Port Angeles’ assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the City’s overall financial health.

The **statement of activities** presents information designed to show how the City’s net assets changed during the year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.



Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City of Port Angeles, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near-term revenues/financial resources and expenditures while the government-wide financial statements include both near-term and long-term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the City's near-term financing requirements and immediate fiscal health. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long-term impact of the City's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

In 2013, the City of Port Angeles maintained 16 individual governmental funds. The City's two major governmental funds, the General Fund and the Capital Improvement Fund, are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled other governmental funds. Individual fund data for each of the other governmental funds can be found in combining statements later in this report.

The City maintains budgetary control over its operating funds through the adoption of an annual budget. Budgets are adopted at the fund level for all funds in accordance with state law. A budgetary comparison statement is presented for the general fund as part of the basic financial statements. Other budgetary comparison schedules are included following the other governmental funds' combining statements in this report.

Proprietary funds are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received. The City of Port Angeles has two types of proprietary funds, enterprise funds and internal service funds.

Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various City departments. Enterprise fund financial statements are used to report the same functions presented as business-type activities in the government-wide statements, except with more detail. The City's major enterprise funds include electric, water, wastewater, solid waste collections and solid waste transfer station/landfill. The other enterprise funds (stormwater, water treatment plant, medic I, and conservation) are reported as non-major proprietary funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment, medical insurance, and information technology. During 2013, the City accounted for archaeology services in a Cultural Resources internal service fund, however, that fund closed at the end of 2013. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities column of the government-wide statement of net assets.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City of Port Angeles' activities.

The City has two types of fiduciary funds, a pension fund and agency funds. Agency funds are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

Notes to the financial statements

The notes to the financial statements provide additional information that is important to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain **required supplementary information** concerning the City's progress in funding its obligation to provide pension benefits to certain retired firefighters and lifetime medical benefits to uniformed personnel hired before October 1, 1977. Required supplementary information may be found immediately following the notes to the financial statements.

The combining statements for other governmental funds, non-major proprietary funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information.

City of Port Angeles, Washington

Government-wide Financial Analysis

Statement of net position

The statement of net position can serve as a useful indicator of the City's financial position. The City of Port Angeles' net position at December 31, 2012 and 2013 total \$231.3 million and \$235.7 million respectively. Following is a condensed version of the government-wide statement of net position for 2013 compared to 2012.

City of Port Angeles' Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 23,173.2	\$ 24,459.9	\$ 56,236.0	\$ 60,335.3	\$ 79,409.2	\$ 84,795.2
Capital assets, net	92,927.5	86,811.7	140,545.2	127,093.3	233,472.6	213,905.0
Total assets	116,100.7	111,271.6	196,781.2	187,428.6	312,881.9	298,700.2
Amortized charges	-	-	141.9	722.0	141.9	722.0
Unamortized bond discount	-	-	848.8	582.3	848.8	582.3
Total deferred outflows of resources	-	-	990.6	1,304.3	990.6	1,304.3
Other liabilities	3,229.4	2,146.6	7,928.5	9,899.4	11,157.9	12,046.0
Long-term liabilities	10,209.9	10,443.7	56,541.9	46,180.8	66,751.9	56,624.5
Total liabilities	13,439.3	12,590.3	64,470.5	56,080.2	77,909.8	68,670.5
Unamortized bond discount/premium	-	-	263,739.0	62.3	263,739.0	62.3
Total deferred inflows of resources	-	-	263,739.0	62.3	263,739.0	62.3
Net position						
Net investment in capital assets	88,387.9	81,778.4	87,938.1	85,166.6	176,326.0	166,945.0
Restricted	1,249.2	1,249.4	5,376.8	11,757.3	6,626.0	13,006.7
Unrestricted	13,024.3	15,653.5	39,722.7	35,666.5	52,746.9	51,320.0
Total net position	\$ 102,661.4	\$ 98,681.3	\$ 133,037.6	\$ 132,590.4	\$ 235,698.9	\$ 231,271.8

There are five basic transactions that will affect the comparability of the statement of net position summary presentation.

1. Net results of activities will increase/decrease current assets and unrestricted net position.
2. Borrowing for capital will increase current assets and long-term debt.
3. Spending borrowed proceeds on new capital will reduce current assets and increase capital assets. There is a second impact, an increase in capital assets and an increase in related net debt, which will not change the net investment in capital assets.
4. Principal payment on debt will (a) reduce current assets and reduce long-term debt, and (b) reduce unrestricted net position and increase net investment in capital assets.
5. Reduction of capital assets through depreciation will reduce capital assets and net investment in capital assets.

In **governmental activities**, approximately 86% of the net position is reported as net investment in capital assets. These assets are used to provide services to citizens, and as such are not available for future spending.

In **business-type activities**, total net position increased 0.3 percent from 132.6 million to \$133.0 million in 2013. This was primarily the result of an increased volume of capital assets, along with the removal of the restrictions placed on monies in the Water Treatment Plant Fund when that fund closed into the Water Fund at the end of 2013.

Changes in net position

The changes in the net position table illustrate the increases or decreases in net assets of the City resulting from its operating activities. Following is a table showing the City's changes in net position in 2013 compared to 2012, which is a condensed version of the citywide statement of activities. The table shows the revenues, expenses, and related changes in net position for the governmental activities separate from the business-type activities for 2012 and 2013.

There are nine basic impacts on revenues and expenses:

Revenues

1. Economic condition: various indicators can reflect a declining, stable or growing economic environment and can have a substantial impact on property, sales, gas or other tax revenue as well as public spending habits for building permits, elective user fees, and volumes of consumption.
2. Increase/decrease in Council approved rates: while certain tax rates are set by statute, the City Council has significant authority to impose and periodically increase/decrease rates (for utilities, permits, recreation fees, etc.).
3. Increase/decrease in voter-approved rates: In 2001, Washington State voters approved Initiative 747 which limited increases in property tax levy amounts to the lesser of 1% or the implicit price deflator.
4. Changing patterns in intergovernmental and grant revenues: certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring grants are less predictable and often distort their impact on year-to-year comparisons.
5. Market impacts on investment income: the City's investment portfolio is dependent on the performance of the market, in addition to the performance of the Local Government Investment Pool (LGIP) managed by the State Treasurer's Office. Other funds are placed with local financial institutions and with U.S. backed securities. All investments are subject to market conditions that may cause investment income to fluctuate.

Expenses

6. Changes in services: within the functional expense categories (general government, public safety, transportation, etc.), individual programs may be added or deleted to meet changing community needs and budget restrictions.
7. Changes in personnel: changes in service demand may cause the Council to increase or decrease staffing levels.
8. Salary and benefit increases: expenses are affected by adjustments in cost of living, merit increases, union contracts, medical insurance, and retirement rates.
9. Inflation: the cost of goods and services provided to the City may experience increases due to inflation.

City of Port Angeles, Washington

City of Port Angeles' Changes in Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for services	\$ 4,167.2	\$ 4,126.6	\$ 60,424.7	\$ 56,855.8	\$ 64,591.9	\$ 60,982.4
Operating grants and contributions	538.5	623.9	1,036.4	1,120.9	1,575.0	1,744.8
Capital grants and contributions	3,557.8	695.1	661.1	3,325.3	4,218.9	4,020.4
General Revenues:						
Property taxes	4,498.7	4,530.7	-	-	4,498.7	4,530.7
Sales and use taxes	4,408.9	4,228.0	-	-	4,408.9	4,228.0
Utility taxes	4,280.8	3,810.1	-	-	4,280.8	3,810.1
Telephone tax	610.1	517.6	-	-	610.1	517.6
Real estate excise tax	447.6	309.2	-	-	447.6	309.2
Other taxes	0.1	0.1	-	-	0.1	0.1
Interest and investment earnings	83.1	227.9	54.8	412.4	137.9	640.3
Gain on sale of capital assets	(2.8)	38.2	-	-	(2.8)	38.2
Total revenues	<u>\$ 22,590.0</u>	<u>\$ 19,107.4</u>	<u>\$ 62,177.1</u>	<u>\$ 61,714.4</u>	<u>\$ 84,767.1</u>	<u>\$ 80,821.8</u>
Program expenses including indirect expenses:						
General government	\$ 2,680.1	\$ 2,400.2	\$ -	\$ -	\$ 2,680.1	\$ 2,400.2
Public safety	9,800.6	9,989.8	-	-	9,800.6	9,989.8
Utilities and environment	693.2	1,017.6	-	-	693.2	1,017.6
Transportation	2,357.6	2,794.7	-	-	2,357.6	2,794.7
Economic environment	1,022.5	1,255.6	-	-	1,022.5	1,255.6
Culture and recreation	2,385.2	2,500.9	-	-	2,385.2	2,500.9
Interest & long-term debt	214.9	239.2	-	-	214.9	239.2
Electric utility	-	-	34,862.8	33,218.6	34,862.8	33,218.6
Water utility	-	-	5,967.6	5,622.5	5,967.6	5,622.5
Wastewater utility	-	-	6,464.6	5,916.5	6,464.6	5,916.5
Solid Waste Collection utility	-	-	3,226.3	3,071.3	3,226.3	3,071.3
Solid Waste Tfr Station/Landfill utility	-	-	7,186.5	5,996.7	7,186.5	5,996.7
Stormwater utility	-	-	1,023.9	905.8	1,023.9	905.8
Conservation Utility	-	-	885.5	1,237.1	885.5	1,237.1
Medic 1 utility	-	-	1,568.7	1,492.6	1,568.7	1,492.6
Total expenses	<u>\$ 19,154.1</u>	<u>\$ 20,198.0</u>	<u>\$ 61,185.9</u>	<u>\$ 57,461.1</u>	<u>\$ 80,339.9</u>	<u>\$ 77,659.1</u>
Increase in net position before transfers	<u>\$ 3,436.0</u>	<u>\$ (1,090.6)</u>	<u>\$ 991.2</u>	<u>\$ 4,253.3</u>	<u>\$ 4,427.2</u>	<u>\$ 3,162.7</u>
Transfers	544.1	(99.7)	(544.1)	99.7	-	-
Change in net position	<u>3,980.1</u>	<u>(1,190.3)</u>	<u>447.1</u>	<u>4,353.0</u>	<u>4,427.2</u>	<u>3,162.7</u>
Net position - beginning	<u>98,681.3</u>	<u>99,871.6</u>	<u>132,590.5</u>	<u>128,237.5</u>	<u>231,271.8</u>	<u>228,109.1</u>
Net position - ending	<u>\$ 102,661.4</u>	<u>\$ 98,681.3</u>	<u>\$ 133,037.6</u>	<u>\$ 132,590.5</u>	<u>\$ 235,699.0</u>	<u>\$ 231,271.8</u>

Governmental activities contributed almost \$102.7 million of the citywide net position, an increase of \$4.0 million from 2012.

Key elements of the 2013 change in net position are as follows:

- Capital grants and contributions increased approximately \$2.9 million primarily due to the receipt of a Federal Highway Administration grant for the Lauridsen Bridge.
- Investment interest declined for the sixth straight year, down \$145 thousand from 2012 due to continued low interest rates. Investments held at higher interest rates matured requiring reinvesting to occur at a lower yield.

Business-type activities of the City's utilities increased the City of Port Angeles' net position by \$44.7 thousand from 2012. Business-type activities account for 56.4 percent of the City's net position.

Key elements of this change are as follows:

- Capital grants and contributions in business type activities decreased to \$661 thousand in 2013 due to the one-time receipt of \$2.6 million in BTOP grant funding in 2012 and receipt of a \$572 thousand insurance recovery in 2012.
- Charges for services increased \$3.6 million with the majority of that increase coming rate increases, and increased usage.

Financial Analysis of the City's Funds

The focus of the City of Port Angeles' **governmental funds** is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of 2013, the City's governmental funds reported combined ending fund balances of \$13.0 million, a decrease of \$1.8 million from \$14.8 million in 2012. The reduction resulted from a number of factors, including a significant increase in Capital outlay.

Of the total \$13.0 million fund balance in the governmental funds, \$1.0 million is nonspendable for permanent fund principal. An additional \$633 thousand is restricted based on state law, just under \$5.1 million is committed based on Council direction, and \$816 thousand is assigned based on staff requests. The remaining \$5.4 million is unassigned and can be used for the ongoing operations of the City.

The **general fund** is the chief operating fund of the City of Port Angeles. At the end of the current fiscal year, unassigned fund balance was almost \$5.4 million, while total fund balance was just over \$5.8 million. The remaining fund balance of approximately \$449 thousand includes the following designations:

- committed to:
 - o contingencies (\$250 thousand)
 - o senior center improvements (\$47 thousand)
- assigned for
 - o compensated absences (\$136 thousand)
 - o public safety (\$16 thousand)

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 32% of total general fund expenditures (excluding transfers), while total fund balance represents 35% of that same amount.

General fund revenue (excluding transfers) increased \$1.5 million from 2012, mostly due to an increase in taxes. General fund expenditures (including transfers) ended 2013 at nearly \$18.4 million, slightly lower than 2012.

The **proprietary funds** provide the same type of information found in the government-wide financial statements, but in more detail. Total net position in the proprietary funds totaled \$133.1 million at the end of 2013, an increase of \$447 thousand over 2012. This is mostly a result of an increase in capital assets, net of depreciation. The construction in progress was the largest source of growth in this area, with a number of projects in electric, water, wastewater, and stormwater contributing to the increase.

Due to rate increases in electric, wastewater (CSO rates), solid waste collections, transfer station, and stormwater, 2013 operating revenues in the proprietary funds increased \$3.3 million compared to 2012 levels. Operating expenses in the proprietary funds were \$58.2 million, up \$2.5 million or 4.6 percent from the 2012 level of \$55.7 million. One of the largest increases was in the cost of power purchased from Bonneville Power Administration (BPA) which grew \$606 thousand. Other increases are found in operations and maintenance (\$827 thousand) and taxes (\$390 thousand).

Other factors concerning finances of the proprietary funds are addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Revenues in the City's general fund were originally budgeted at just over \$18.6 million (excluding transfers), but were increased with a \$179 thousand budget amendment as reflected in the final budget. The only category that increased in the final budget was intergovernmental revenue. At the end of the year, actual revenues were \$199 thousand over the final budget, mostly related to taxes collected.

General fund expenditures totaled \$17.3 million in the original budget, excluding transfers out. The final budget showed a modest increase of \$342 thousand. Despite increases in medical and dental insurance, and a PERS rate increase, actual expenditures ended the year \$786 thousand under budget, at approximately \$16.8 million. The budgetary variance resulted from vacant positions either not being filled or being filled internally, thereby saving on personnel costs. In addition, City staff was directed to control spending as a precaution due to the decline of the overall economy and the uncertainty of future city revenues.

Actual transfers from the general fund totaled \$1.5 million, including regular operating support for the following funds: street (\$772 thousand), medic one (\$435.5 thousand), and Esther Webster fine arts center (\$25 thousand). Additional transfers went to debt service funds for repayment of capital debt (\$45 thousand) and to capital and proprietary funds for project support (\$270 thousand).

City of Port Angeles' Capital Assets (net of depreciation)

The City continued to make investments in capital assets in 2013 as reflected in the following table. The increase from 2012 to 2013 was \$19.6 million.

Governmental Assets increased \$6.1 million, partially made up of:

- An increase of \$4.6 million from 2012 to just over \$10.7 million in construction in progress at the end of 2013. Major projects in this category include the Waterfront Development project (\$6.3 million), the Lauridsen Bridge (\$3.5 million), and IT projects totaling \$470 thousand, to name a few.

City of Port Angeles, Washington

- Infrastructure increased \$1.8 million due to the completed PenCom Computer Aided Dispatch (CAD) upgrade (\$1.2 million).

Business-Type activities assets reflected an overall increase of \$13.5 million, partially resulting from:

- Construction in progress experienced a net increase of \$11.4 million due to several capital projects including the CSO Phase I, which alone added \$25.0 million to construction in progress. Additional increases and decreases in utility projects also occurred during the year.
- Additional changes are listed in the table below, and outlined in further detail in Note 6.

Capital Assets
(net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 12,464.1	\$ 12,464.1	\$ 1,883.9	\$ 1,883.9	\$ 14,348.0	\$ 14,348.0
Buildings	10,161.1	10,588.1	1,062.9	1,137.2	11,223.9	11,725.3
Improvements	7,681.9	7,599.8	29,384.8	30,525.8	37,066.7	38,125.6
Utility plant in service	-	-	74,946.7	71,672.1	74,946.7	71,672.1
Machinery and equipment	6,429.4	6,369.9	2,830.9	2,834.9	9,260.3	9,204.8
Infrastructure	45,454.4	43,656.7	-	-	45,454.4	43,656.7
Construction in progress	10,736.6	6,133.1	30,436.0	19,039.4	41,172.6	25,172.5
Total	\$ 92,927.5	\$ 86,811.7	\$ 140,545.1	\$ 127,093.3	\$ 233,472.6	\$ 213,905.0

Long-term debt

At the end of 2013, the City of Port Angeles had total debt outstanding of \$56.9 million which is an increase of \$10.0 million from 2012. Of this amount, \$4.0 million is general obligation bonds (Library, Western Urban Growth Area (WUGA), and Multi-Modal Property); \$23.1 million is public works trust fund loans (in governmental and business-type combined); \$6.7 million is for solid waste contracts; and the balance of \$23.1 million is revenue bonded debt for electric, water, and wastewater utilities. The increase is due to the addition of two Public Works Trust Fund Loans totaling \$12.5 million for the CSO capital project.

City of Port Angeles Outstanding Debt
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 3,976.6	\$ 4,389.9	\$ -	\$ -	\$ 3,976.6	\$ 4,389.9
Loans	563.0	643.4	22,514.9	11,099.9	23,078	11,743.3
Capital Leases/Contracts	-	-	6,702.0	7,042.0	6,702	7,042.0
Revenue Bonds	-	-	23,126.4	23,722.5	23,126	23,722.5
Total	\$ 4,539.5	\$ 5,033.3	\$ 52,343.3	\$ 41,864.4	\$ 56,882.9	\$ 46,897.7

Economic Factors and Next Year's Budget

Preparing a balanced budget for 2014 provided similar challenges as the 2013 budget process. The economic picture continues to negatively affect revenue estimates, which in turn requires the City to trim expenses.

The 2014 budget is \$129.0 million, a 6.3 percent reduction from the 2013 amended budget of \$137.7 million. This budget includes a continued strong focus on maintaining and strengthening our infrastructure with \$28.8 million dedicated to capital projects, and the remaining \$100.2 million for operations.

During the budget development process, major emphasis was placed on budgeting revenues at levels that would be sustainable into the future, consistent with the City's preliminary Long Range Financial Plan. During past budget processes, various temporary "fixes" were implemented; however, most were not sustainable in the long run, and City staff found themselves scrambling each year to balance the budget. Preparing the 2014 budget was the first year that staff diligently focused on financial projections beyond the current year.

As the General Fund budget was prepared, several shortfalls were apparent, including stagnant revenues (primarily in the area of sales tax and building permits), continued loss of state-shared revenues, and lack of growth in the City's tax base. Expenditures faced similar challenges, including increasing pressure for wage and benefit adjustments, potential for inflation to return, prior deferrals of large capital projects starting to catch up, and a growing debt burden for the next 20 years.

Despite these challenges, staff diligently focused on fully funding the City's core services. The end result is a Citywide budget that is structurally balanced, without the use of "rabbits out of the hat", or excessive use of fund reserves. Not only is the budget balanced, but several key items from the preliminary Long Range Financial Plan were implemented, including:

- Funding for capital needs including Civic Field lighting and Vern Burton roof replacement;
- Continuation of Council's desire for "No New Taxes"; and
- Continue emphasis on comprehensive, "big picture" approach.

Although the 2014 Budget is balanced, we still have several concerns on the horizon that will no doubt impact future budgets. These concerns include:

- Rising criminal justice costs that have increased over 300% since 2005;
- Aging City infrastructure that has been largely neglected due to cost constraints;
- Repayment of current and future debt obligations; and
- Setting utility rates at appropriate levels to cover operations while still considering residents' ability to pay.

In summary, the 2014 Budget provides a spending plan that is fiscally responsible, promotes maintenance and repairs of the City's aging infrastructure, and provides excellent City service levels for our citizens. Despite the economic challenges presented over the last several years, City staff has provided budget solutions that have allowed the City to maintain the high service levels expected by the community.

We will approach the upcoming year on a cautionary note. At best, we can expect the economy to begin to rebound and exceed the performance of the last couple of years. The uncertainty over the future strengthens our need to focus on long-range planning and long-term management of resources. Within the confines of our resources, we will concentrate on growing the tax base and not the tax rate. We will concentrate on providing services that add value to our community, on capital improvements that preserve infrastructure and facilities, and on expanding technology to serve our citizens with greater access to e-government information. Working together we will concentrate on leveraging our resources and efforts to attain maximum community benefit, improving the livability, and enhancing our quality of life which makes us proud to call Port Angeles a great place to live, work, and play.

Financial Contact

The City's financial statements are designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about this report or need additional financial information, contact the City's Finance Department, 321 East 5th Street, PO Box 1150, Port Angeles, WA 98362, or visit the City's website at www.cityofpa.us.

City of Port Angeles, Washington

**Government-Wide
Statement of Net Position
December 31, 2013**

	2013			2012
	Governmental Activities	Business-type Activities	Total	Total
ASSETS				
Cash and cash equivalents	\$ 19,478,893	\$ 38,127,166	\$ 57,606,059	\$ 59,643,360
Investments	923,446	-	923,446	962,832
Receivables	2,352,835	11,446,522	13,799,357	16,310,042
Internal balances	104,912	(104,912)	-	-
Inventories	188,148	1,923,771	2,111,919	1,974,610
Prepaid bond insurance	-	102,821	102,821	148,632
Unamortized bond discount	-	141,877	141,877	433,687
Prepaid items	-	-	-	247
Restricted:				
Cash and cash equivalents	125,000	4,843,448	4,968,448	5,904,106
Capital Assets:				
Land	12,464,125	1,883,945	14,348,070	14,348,070
Buildings	18,944,367	1,697,411	20,641,778	20,620,255
Improvements	10,994,875	70,201,067	81,195,942	81,809,424
Utility plant in service	-	107,045,722	107,045,722	100,988,910
Machinery and equipment	17,138,512	4,529,487	21,667,999	20,675,018
Infrastructure	61,332,017	-	61,332,017	58,623,512
Construction in progress	10,736,605	30,435,951	41,172,556	25,172,557
Total capital assets	131,610,502	215,793,583	347,404,085	322,237,747
Less: accumulated depreciation	(38,683,017)	(75,248,426)	(113,931,443)	(108,332,699)
Total capital assets, net of accumulated depreciation	92,927,486	140,545,157	233,472,643	213,905,049
Total assets	116,100,720	197,025,850	313,126,570	298,700,245
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	-	745,936	745,936	721,999
Total deferred outflows of resources	-	745,936	745,936	721,999
LIABILITIES				
Accounts payable	1,488,670	5,955,604	7,444,274	8,626,032
Accrued interest payable	-	935,589	935,589	935,894
Other liabilities	1,740,718	1,037,355	2,778,073	2,484,089
Long-term liabilities:				
Due within one year - capital debt	509,643	2,426,451	2,936,094	2,689,516
Unearned revenue	966,799	131,135	1,097,934	1,226,390
Unamortized bond discount/premium	-	263,739	263,739	62,263
Compensated absences - current	638,974	254,529	893,503	659,669
Compensated absences - long term	998,658	302,227	1,300,885	1,598,366
Landfill postclosure	-	3,510,712	3,510,712	3,553,994
Due in more than one year - OPEB	3,065,971	-	3,065,971	2,688,370
Due in more than one year - capital debt	4,029,899	49,916,888	53,946,787	44,208,222
Total liabilities	13,439,332	64,734,229	78,173,561	68,732,805
NET POSITION				
Net investment in capital assets	88,387,944	88,201,818	176,589,762	167,007,311
Restricted:				
Permanent fund principal	1,055,291	-	1,055,291	1,055,291
Deposits	-	533,373	533,373	504,948
Landfill postclosure	-	3,510,712	3,510,712	3,553,994
Workers Compensation	125,000	-	125,000	125,000
Debt service	-	1,332,736	1,332,736	1,100,000
Permanent funds	68,903	-	68,903	68,903
Water Operations	-	-	-	6,598,639
Unrestricted	13,024,250	39,458,918	52,483,168	51,257,673
Total net position	\$ 102,661,388	\$ 133,037,557	\$ 235,698,945	\$ 231,271,758

The Accompanying Notes Are An Integral Part Of This Statement

City of Port Angeles, Washington

**Government-Wide
Statement of Activities
For the Year Ended December 31, 2013**

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,680,135	457,013	\$ -	\$ -	\$ (2,223,122)	\$ -	\$ (2,223,122)
Public safety	9,800,583	2,185,402	391,777	324,948	(6,898,456)	-	(6,898,456.34)
Utilities and environment	693,226	12,858	-	-	(680,368)	-	(680,367.68)
Transportation	2,357,589	729,252	38,929	3,232,153	1,642,744	-	1,642,744.34
Economic environment	1,022,451	290,748	-	-	(731,703)	-	(731,702.79)
Culture and recreation	2,385,218	491,894	107,822	727	(1,784,775)	-	(1,784,775.06)
Interest on long-term debt	214,854	-	-	-	(214,854)	-	(214,854.00)
Total governmental activities	19,154,056	4,167,166	538,528	3,557,828	(10,890,534)	-	(10,890,534)
Business-type activities:							
Electric utility	34,862,759	36,035,288	31,681	66,460	-	1,270,670	1,270,670
Water utility	5,967,569	5,206,946	49,454	-	-	(711,169)	(711,169)
Wastewater utility	6,464,589	7,600,668	72,560	414,459	-	1,623,098	1,623,098
Solid Waste Collection utility	3,226,264	3,381,500	-	-	-	155,236	155,236
Solid Waste Trf St/LF utility	7,186,543	5,928,752	95,449	-	-	(1,162,342)	(1,162,342)
Stormwater utility	1,023,888	1,095,861	107,405	180,192	-	359,571	359,571
Conservation utility	885,545	2,207	679,897	-	-	(203,441)	(203,441)
Medic 1 utility	1,568,719	1,173,503	-	-	-	(395,216)	(395,216)
Total business-type activities	61,185,875	60,424,724	1,036,447	661,112	-	936,408	936,408
Total Primary Government	\$ 80,339,931	\$ 64,591,890	\$ 1,574,975	\$ 4,218,940	(10,890,534)	936,408	(9,954,126)
General Revenues:							
Property Tax					4,498,672	-	4,498,672
Real Estate Excise Tax					447,603	-	447,603
Sales and Use Tax					4,408,857	-	4,408,857
Utility Tax					4,280,783	-	4,280,783
Telephone Tax					610,135	-	610,135
Other Tax					148	-	148
Investment Earnings					83,118	54,800	137,918
Gain on sale of capital assets					(2,801)	-	(2,801)
Transfers					544,100	(544,100)	-
Total general revenues and transfers					14,870,615	(489,300)	14,381,315
Changes in net assets					3,980,081	447,108	4,427,189
Net assets - beginning					98,681,306	132,590,452	231,271,758
Net assets - ending					\$ 102,661,387	\$ 133,037,557	\$ 235,698,944

The Accompanying Notes Are An Integral Part Of This Statement

City of Port Angeles, Washington

**Government-Wide
Statement of Activities
For the Year Ended December 31, 2012**

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,400,182	483,183	\$ -	\$ -	\$ (1,917,000)	\$ -	\$ (1,917,000)
Public safety	9,989,770	1,945,289	466,803	110,411	(7,467,267)	-	(7,467,267.00)
Utilities and environment	1,017,628	54,201	-	-	(963,428)	-	(963,427.60)
Transportation	2,794,664	857,894	10,847	487,807	(1,438,116)	-	(1,438,115.92)
Economic environment	1,255,581	281,750	30,299	-	(943,532)	-	(943,532.29)
Culture and recreation	2,500,946	504,332	115,974	96,899	(1,783,740)	-	(1,783,740.21)
Interest on long-term debt	239,268	-	-	-	(239,268)	-	(239,268.00)
Total governmental activities	20,198,039	4,126,649	623,922	695,117	(14,752,351)	-	(14,752,351)
Business-type activities:							
Electric utility	33,218,632	34,747,316	18,793	3,190,689	-	4,738,166	4,738,166
Water utility	5,622,481	5,099,044	-	23,148	-	(500,289)	(500,289)
Wastewater utility	5,916,532	6,810,376	71,895	-	-	965,739	965,739
Solid Waste Collection utility	3,071,313	3,176,806	76,742	-	-	182,235	182,235
Solid Waste Trf St/LF utility	5,996,725	5,108,566	61,731	-	-	(826,428)	(826,428)
Stormwater utility	905,743	800,173	-	41,194	-	(64,376)	(64,376)
Conservation utility	1,237,142	6,826	890,216	-	-	(340,100)	(340,100)
Medic 1 utility	1,492,575	1,106,698	1,534	70,270	-	(314,073)	(314,073)
Total business-type activities	57,461,143	56,855,805	1,120,911	3,325,301	-	3,840,874	3,840,874
Total Primary Government	\$ 77,659,182	\$ 60,982,454	\$ 1,744,833	\$ 4,020,418	(14,752,351)	3,840,874	(10,911,477)
General Revenues:							
Property Tax					4,530,654	-	4,530,654
Real Estate Excise Tax					309,166	-	309,166
Sales and Use Tax					4,228,001	-	4,228,001
Utility Tax					3,810,091	-	3,810,091
Telephone Tax					517,552	-	517,552
Other Tax					133	-	133
Investment Earnings					227,944	412,400	640,344
Gain on sale of capital assets					38,176	-	38,176
Special Item - Tax refund					-	-	-
Transfers					(99,707)	99,707	-
Total general revenues and transfers					13,562,011	512,107	14,074,118
Changes in net assets					(1,190,340)	4,352,980	3,162,641
Net assets - beginning					99,871,646	128,237,474	228,109,120
Net assets - ending					\$ 98,681,306	\$ 132,590,452	\$ 231,271,761

The Accompanying Notes Are An Integral Part Of This Statement

City of Port Angeles, Washington

**Balance Sheet
Governmental Funds
December 31, 2013**

	2013			Total Governmental Funds	2012
	General Fund	Capital Improvement Fund	Other Governmental Funds		Total Governmental Funds
ASSETS AND OUTFLOWS OF RESOURCES					
Cash and cash equivalents	\$ 6,400,394	\$ 3,575,982	\$ 2,990,577	\$ 12,966,953	\$ 14,302,774
Investments	-	-	923,446	923,446	825,831
Receivables:					
Taxes	159,920	-	10,435	170,355	236,066
Interest	28,513	-	12,629	41,142	51,257
Customer accounts	19,686	-	1,866	21,552	47,263
Due from other funds	-	-	-	-	-
Due from other governments	131,147	662,977	429,288	1,223,412	696,888
Contracts receivable	-	-	831,013	831,013	904,222
Prepaid items	-	-	-	-	247
Total assets	\$ 6,739,660	\$ 4,238,959	\$ 5,199,254	\$ 16,177,873	\$ 17,064,548
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Accounts payable	\$ 282,332	\$ 1,063,495	\$ 37,857	\$ 1,383,684	\$ 712,206
Wages payable	400,814	-	96,785	497,599	361,884
Due to other funds	-	-	-	-	-
Due to other governments	(9,952)	-	-	(9,952)	8,628
Deferred/unearned revenue	134,903	-	831,896	966,799	1,095,255
Other liabilities	83,126	280,609	43	363,778	80,654
Total liabilities	891,223	1,344,104	966,581	3,201,908	2,258,627
FUND BALANCES					
Nonspendable:					
Inventory and Prepaids	-	-	-	-	247
Permanent fund principal	-	-	1,055,920	1,055,920	1,056,019
Restricted for:					
Capital projects (Streets/Parks)	-	-	122,351	122,351	220,142
Criminal Justice	-	-	-	-	329,770
Debt Service	-	-	21,730	21,730	13,150
Economic Development	-	-	-	-	1,745,994
Housing Rehabilitation	-	-	207,084	207,084	134,163
Indigent Defense	-	-	-	-	-
Tourism	-	-	282,284	282,284	161,738
Committed to:					
Capital projects	-	2,894,854	189,930	3,084,784	3,948,512
Contingencies	250,000	-	-	250,000	250,000
Debt Service	-	-	669,126	669,126	696,512
Emergency Communications	-	-	697,444	697,444	824,169
Façade Improvements	-	-	153,991	153,991	83,543
Fine Arts Center	-	-	168,581	168,581	68,903
Senior Center	47,143	-	-	47,143	49,869
Assigned to:					
Compensated Absences	135,646	-	-	135,646	395,524
Economic Development	-	-	201,880	201,880	630,515
Public Safety	16,469	-	-	16,469	63,999
Streets	-	-	462,352	462,352	273,930
Unassigned	5,399,179	-	-	5,399,179	3,859,585
Total fund balances	5,848,437	2,894,854	4,232,671	12,975,962	14,805,922
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,739,660	\$ 4,238,958	\$ 5,199,252	\$ 16,177,870	\$ 17,064,549

The Accompanying Notes Are An Integral Part Of This Statement

City of Port Angeles, Washington

**Reconciliation Of The Balance Sheet
To The Statement of Net Position
Governmental Funds
December 31, 2013**

Fund balances - total governmental funds **\$ 12,975,962**

Amounts reported for governmental activities in the statement of net assets are different because:
Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

	Government	ISF	Total	
Land	\$ 12,464,125	\$ -		
Work in progress	10,266,819	469,786		
Total non-depreciable assets			23,200,730	
Buildings	18,848,854	95,513		
Improvements	10,764,360	230,515		
Machinery & Equipment	3,917,745	13,220,767		
Infrastructure	61,332,017	-		
Less: Accumulated depreciation	<u>(30,581,072)</u>	<u>(8,101,945)</u>		
Total depreciable assets			69,726,756	
Increase in net position for net capital assets				92,927,486

The focus of governmental funds is on short-term financing in the current period
and therefore long-term debt is not reported in the governmental funds:

	Current	Long-term	
<i>General Obligation Bonds Payable:</i>			
2005 GO Bonds Refunding	\$ 260,000	\$ 275,000	
2005 GO Bonds (WUGA)	155,000	2,165,000	
2006 LTGO Bond (MultiModal)	14,216	1,107,338	
PWTF Loan - Street Loan	80,427	482,561	
OPEB	-	3,065,971	
Compensated absences	<u>638,974</u>	<u>998,658</u>	
Decrease in net position for total debt	1,148,617	8,094,528	(9,243,145)

	2012 (net)	2013 (net)	
Conversion of taxes receivable to full accrual:			
Criminal Justice Tax	\$ (39,312)	\$ 36,551	
Hotel/Motel Tax	(40,279)	40,861	
Leasehold Tax	(2,535)	5,520	
Pencom Sales Tax	(53,510)	57,488	
Sales Tax	(467,485)	455,715	
Property Tax	<u>(8,131)</u>	<u>17,576</u>	
Decrease in net position for taxes receivable	(611,251)	613,712	2,461

Other Eliminations

Internal service funds are used by management to charge the cost of certain
activities to other funds:

Non capital assets	6,887,992		
Non debt liabilities	<u>(994,279)</u>		
			5,893,713

Internal Service Funds are used by management to charge the cost of certain
activities to individual funds:

To eliminate the effect of internal fund balances, net of charges to governmental funds. **104,912**

Net position of governmental activities **\$ 102,661,387**

The Accompanying Notes Are An Integral Part Of This Statement

City of Port Angeles, Washington

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013**

	2013			2012	
	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds	
REVENUES					
Taxes	\$ 12,378,635	\$ -	\$ 1,865,103	\$ 14,243,738	\$ 13,468,184
Licenses and permits	376,523	-	-	376,523	335,551
Intergovernmental revenues	707,613	3,266,330	1,639,939	5,613,882	2,949,130
Charges for services	5,187,831	-	252,500	5,440,331	5,014,254
Fines and forfeitures	227,937	-	-	227,937	225,240
Investment earnings	52	-	88,323	88,375	179,671
Contributions and donations	676	21,985	173,162	195,823	188,023
Other revenue	144,185	146,167	681,327	971,679	731,815
Total revenues	19,023,452	3,434,482	4,700,354	27,158,288	23,091,868
EXPENDITURES					
Current:					
General government	5,167,351	-	-	5,167,351	5,264,578
Public safety	6,942,642	-	2,222,249	9,164,891	9,074,000
Utilities and environment	2,125,777	-	-	2,125,777	1,936,851
Transportation	-	47,991	1,649,761	1,697,752	1,864,418
Economic environment	561,076	-	447,102	1,008,178	1,215,496
Culture and recreation	1,968,567	-	143,606	2,112,173	2,197,871
Debt service:					
Principal	-	-	493,762	493,762	679,432
Interest	-	-	214,854	214,854	239,268
Other debt cost	-	-	602	602	602
Capital outlay	63,031	7,352,966	153,269	7,569,266	2,725,400
Total expenditures	16,828,444	7,400,957	5,325,205	29,554,606	25,197,916
Excess (deficiency) of revenues over (under) expenditures	2,195,008	(3,966,475)	(624,851)	(2,396,318)	(2,106,048)
OTHER FINANCING SOURCES (USES)					
Transfers in	233,459	3,118,450	1,534,865	4,886,774	4,522,318
Transfers (out)	(1,547,550)	-	(2,772,865)	(4,320,415)	(4,745,583)
Other - Proceeds from sale of capital asset	-	-	-	-	1,500
Total other financing sources (uses)	(1,314,091)	3,118,450	(1,238,000)	566,359	(221,765)
Net change in fund balances	880,917	(848,025)	(1,862,851)	(1,829,959)	(2,327,813)
Fund balances - beginning	4,967,519	3,742,879	6,095,524	14,805,920	17,133,730
Fund balances - ending	\$ 5,848,437	\$ 2,894,855	\$ 4,232,670	\$ 12,975,961	\$ 14,805,921

The Accompanying Notes Are An Integral Part Of This Statement

**Reconciliation Of The Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To The Statement of Activities
Governmental Funds**

For the year ended December 31, 2013

Net changes in fund balances - total governmental funds **\$ (1,829,959)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.

Expenditures for capital assets	7,817,743	
Less current year depreciation	<u>(1,936,386)</u>	5,881,357

Additional OPEB requirement		(377,601)
Less compensated absences required		(10,947)

Eliminate allocated charges for expenses and revenues from government to government activities		4,461
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Issuance of bonds are reported as an other financing source on the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments		493,762
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Accrual of taxes received in the first 2 months of the new year and reversal of the prior year accrual

Reverse last year adjustment for accrued taxes	(611,251)	
Additional accrued taxes for 2013	<u>613,712</u>	2,461

Internal service funds are used by management to charge the costs of certain activities including the cost of fleet vehicles, computer services, and employee benefits.

Net internal charges		<u>(183,454)</u>
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Change in net position of governmental activities **\$ 3,980,081**

The Accompanying Notes Are An Integral Part Of This Statement

City of Port Angeles, Washington

**General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2013**

			2013		2012
	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget	Actual Amounts Budgetary Basis
REVENUES					
Taxes	\$ 12,083,100	\$ 12,083,100	\$ 12,378,635	\$ 295,535	\$ 11,128,464
Licenses and permits	382,875	382,875	376,523	(6,352)	335,551
Intergovernmental revenues	547,350	726,800	707,613	(19,187)	839,974
Charges for services	5,226,925	5,226,925	5,187,831	(39,094)	4,761,503
Fines and forfeitures	258,000	258,000	227,937	(30,063)	225,240
Investment earnings	74,250	74,250	52	(74,198)	74,082
Contributions and donations	1,000	1,000	676	(324)	15,082
Other revenue	71,300	71,300	144,185	72,885	119,500
Total revenues	18,644,800	18,824,250	19,023,452	199,202	17,499,396
EXPENDITURES					
Current:					
General government	5,341,100	5,420,100	5,167,351	252,749	5,249,757
Public safety	7,221,700	7,263,490	6,942,642	320,848	7,011,087
Utilities and environment	2,023,050	2,046,600	2,125,774	(79,174)	1,936,851
Economic environment	585,400	588,200	561,076	27,124	568,208
Culture and recreation	2,090,550	2,140,150	1,968,567	171,583	1,986,745
Capital Outlay	10,000	155,500	63,031	92,469	94,302
Total expenditures	17,271,800	17,614,040	16,828,441	785,599	16,846,950
Excess (deficiency) of revenues over (under) expenditures	1,373,000	1,210,210	2,195,011	984,801	652,446
OTHER FINANCING SOURCES (USES)					
Transfers in	121,200	235,560	233,459	(2,101)	251,270
Transfers (out)	(1,452,250)	(1,547,550)	(1,547,550)	-	(1,613,850)
Other	-	-	-	-	-
Total other financing sources (uses)	(1,331,050)	(1,311,990)	(1,314,091)	(2,101)	(1,362,580)
Net change in fund balances	41,950	(101,780)	880,920	982,700	(710,134)
Fund balances - beginning	4,967,518	4,967,518	4,967,518	-	5,677,652
Fund balances - ending	\$ 5,009,468	\$ 4,865,738	\$ 5,848,438	\$ 982,700	\$ 4,967,518

The City budgets its governmental funds on the modified accrual basis which represents GAAP for governments.

The Accompanying Notes Are An Integral Part Of This Statement

City of Port Angeles, Washington

Capital Improvement Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2013

	2013				2012
	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget	Actual Amounts Budgetary Basis
REVENUES					
Intergovernmental revenues	\$ 4,291,700	\$ 5,907,800	\$ 3,266,330	\$ (2,641,470)	\$ 523,999
Contributions and donations	-	-	21,985	21,985	57,999
Other revenues	-	146,167	146,167	-	-
Total revenues	4,291,700	6,053,967	3,434,482	(2,619,485)	581,998
EXPENDITURES					
Current:					
Transportation	-	-	47,991	(47,991)	-
Capital outlay	5,804,300	10,221,174	7,352,966	2,868,208	2,550,657
Total expenditures	5,804,300	10,221,174	7,400,957	2,868,208	2,550,657
Excess (deficiency) of revenues over (under) expenditures	(1,512,600)	(4,167,207)	(3,966,475)	200,732	(1,968,659)
OTHER FINANCING SOURCES (USES)					
Transfers in	1,492,600	3,118,450	3,118,450	-	3,126,000
Total other financing sources (uses)	1,492,600	3,118,450	3,118,450	-	3,126,000
Net change in fund balances	(20,000)	(1,048,757)	(848,025)	200,732	1,157,341
Fund balances - beginning	3,742,878	3,742,878	3,742,878	-	2,585,537
Fund balances - ending	\$ 3,722,878	\$ 2,694,121	\$ 2,894,855	\$ 200,732	\$ 3,742,878

The City budgets its governmental funds on the modified accrual basis which represents GAAP for governments.

Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities - 2013					2013		2012
	Enterprise Funds	Water Utility	Wastewater Utility	Solid Waste Collection Utility	Nonmajor Proprietary Funds	Total	Governmental Internal Service Funds	Business-Type Enterprise Funds
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 8,502,564	\$ 12,500,260	\$ 12,574,472	\$ 1,424,869	\$ 2,591,628	\$ 37,593,793	\$ 6,511,940	\$ 31,883,594
Receivables:								
Interest	33,353	39,905	43,500	19,157	6,574	142,489	20,704	137,368
Customer accounts	4,958,487	834,298	1,333,377	870,274	317,382	8,313,818	11,723	7,972,364
Prepaid bond insurance	-	39,876	60,302	-	2,643	102,821	-	148,632
Unamortized bond discount	-	85,662	48,327	-	7,888	141,877	-	433,687
Due from other governments	70,680	61,526	2,158,661	575,221	124,127	2,990,215	30,473	6,432,614
Customer deposits - Cash	529,873	2,875	625	-	-	533,373	-	504,701
Inventories	1,712,785	210,986	-	-	-	1,923,771	188,148	1,784,116
Total current assets	15,807,742	13,775,388	16,219,264	2,889,521	3,050,242	51,742,157	6,762,988	49,297,076
Restricted:								
Cash and cash equivalents								
Reserved for:								
Landfill postclosure care	-	-	-	3,510,712	-	3,510,712	-	3,553,994
Debt service	507,003	101,107	718,321	-	6,305	1,332,736	-	1,720,411
Water Operations	-	-	-	-	-	-	-	6,598,639
Workers compensation	-	-	-	-	-	-	125,000	-
Total restricted assets	507,003	101,107	718,321	3,510,712	6,305	4,843,448	125,000	11,873,044
Capital assets:								
Land	379,657	478,155	813,150	212,983	-	1,883,945	-	1,883,945
Buildings	365,440	1,230,082	21,391	80,498	-	1,697,411	95,513	1,697,411
Improvements	24,412,848	17,853,622	16,623,345	11,311,252	-	70,201,067	230,515	71,201,562
Utility plant in service	19,330,877	41,281,793	43,270,286	759,843	2,402,923	107,045,722	-	100,988,910
Machinery and equipment	1,641,701	1,030,714	1,416,659	228,679	211,734	4,529,487	13,220,767	4,465,300
Work in progress	1,878,370	806,594	27,182,529	-	568,458	30,435,951	469,786	19,039,428
Total capital assets	48,008,893	62,680,960	89,327,360	12,593,255	3,183,115	215,793,583	14,016,581	199,276,556
Less: accumulated depreciation	(17,634,465)	(20,261,381)	(34,307,767)	(2,722,962)	(321,851)	(75,248,426)	(8,101,945)	(72,183,214)
Capital assets, net of accumulated depreciation	30,374,428	42,419,579	55,019,593	9,870,293	2,861,264	140,545,157	5,914,636	127,093,342
Total non-current assets	30,881,431	42,520,686	55,737,914	13,381,005	2,867,569	145,388,605	6,039,636	138,966,386
Total assets	\$ 46,689,173	\$ 56,296,074	\$ 71,957,178	\$ 16,270,526	\$ 5,917,811	\$ 197,130,762	\$ 12,802,624	\$ 188,263,462
DEFERRED OUTFLOWS OF RESOURCES								
Deferred amount on refunding	181,841	151,654	412,441	-	-	745,936	-	721,999
Total deferred outflows of resources	\$ 181,841	\$ 151,654	\$ 412,441	\$ -	\$ -	\$ 745,936	\$ -	\$ 721,999

48,327

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities - 2013 Enterprise Funds					2013		2012
	Electric Utility	Water Utility	Wastewater Utility	Solid Waste Collection Utility	Nonmajor Proprietary Funds	Total	Governmental Internal Service Funds	Business-Type Enterprise Funds
LIABILITIES								
Current liabilities:								
Accounts payable	\$ 2,505,948	\$ 45,983	\$ 2,626,151	\$ 7,16,064	\$ 61,458	\$ 5,955,604	\$ 104,986	\$ 7,805,272
Due to other governments	5,369	1,638	863	1,165	28	9,063	14,939	20,933
Wages payable	88,679	33,071	33,680	26,718	46,301	228,449	17,086	139,948
Compensated absences payable	48,860	43,719	26,214	126,414	9,322	254,529	18,620	258,303
Interest payable	425,745	230,394	272,893	-	6,557	935,589	-	935,894
Long term debt	420,643	502,408	1,142,353	361,047	-	2,426,451	-	2,195,754
Customer deposits payable	530,123	2,875	625	-	-	533,623	-	505,101
Other current liabilities	135,320	66,448	61,712	-	2,740	266,220	857,268	492,175
Total current liabilities	4,160,687	926,536	4,164,491	1,231,408	126,406	10,609,528	1,012,899	12,353,380
Non-current liabilities:								
Compensated absences payable	111,244	33,864	36,887	32,349	87,883	302,227	30,804	373,047
Unearned revenue	-	-	-	-	131,135	131,135	-	131,135
Unamortized bond discount/premium	22,097	171,566	70,076	-	-	263,739	-	62,263
Long term debt	7,750,773	8,406,425	27,102,112	6,340,936	316,642	49,916,888	-	39,668,680
Landfill postclosure care	-	-	-	3,510,712	-	3,510,712	-	3,553,994
Total non-current liabilities	7,884,114	8,611,855	27,209,075	9,883,997	535,660	54,124,701	30,804	43,789,119
Total liabilities	12,044,801	9,538,391	31,373,566	11,115,405	662,066	64,734,229	1,043,703	56,142,499
NET POSITION								
Net investment in capital assets	22,180,915	33,339,180	26,705,052	3,168,310	2,544,622	87,938,079	5,914,636	86,470,963
Restricted for:								
Debt service	507,003	101,107	718,321	-	6,305	1,332,736	-	1,720,411
Workers Compensation	-	-	-	-	-	-	125,000	-
Deposits	529,873	2,875	625	-	-	533,373	-	504,701
Landfill postclosure	-	-	-	3,510,712	-	3,510,712	-	3,553,994
Water Operations	-	-	-	-	-	-	-	6,598,639
Unrestricted	11,608,422	13,466,175	13,572,055	(1,523,901)	2,704,818	39,827,569	5,719,285	33,994,254
Total net position	\$ 34,826,213	\$ 46,909,337	\$ 40,996,053	\$ 5,155,121	\$ 5,255,745	\$ 133,142,469	\$ 11,758,921	\$ 132,842,962
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.								(252,510)
Net position of business-type activities								\$ 132,590,452

City of Port Angeles, Washington

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds

For the Year Ended December 31, 2013

	Business-type Activities - 2013							2012 Business-Type Enterprise Funds
	Enterprise Funds			2013				
	Electric Utility	Water Utility	Wastewater Utility	Solid Waste Collection Utility	Solid Waste Transfer Station/ Landfill Utility	Nonmajor Proprietary Funds	Governmental Internal Service Funds	
OPERATING REVENUES								
Charges for services	\$ 34,539,825	\$ 5,136,291	\$ 7,200,430	\$ 3,381,500	\$ 5,394,517	\$ 2,268,156	\$ 7,049,908	\$ 55,632,330
Other revenue	1,236,957	67,274	392,372	-	534,235	3,415	388,423	1,221,960
Total operating revenues	35,776,782	5,203,565	7,592,802	3,381,500	5,928,752	2,271,571	7,438,331	56,854,290
OPERATING EXPENSES								
Purchased power/water	24,213,815	13,060	-	-	-	-	-	23,620,610
Operations and maintenance	3,616,586	2,276,281	2,398,543	2,560,228	3,767,052	2,769,967	6,491,301	16,562,013
Taxes	3,650,722	743,520	888,230	386,660	648,952	106,830	136,667	6,035,267
Administrative and general	1,811,120	1,190,278	1,139,754	338,557	344,631	477,165	187,454	4,805,522
Depreciation	1,366,334	1,408,024	1,638,092	4,544	332,784	113,942	858,786	4,629,142
Total operating expenses	34,658,577	5,631,163	6,064,619	3,289,989	5,093,419	3,467,804	7,674,208	55,652,554
Operating income (loss)	1,118,205	(427,598)	1,528,183	91,511	835,333	(1,196,233)	(235,877)	1,201,736
NONOPERATING REVENUES (EXPENSES)								
Intergovernmental	14,025	-	-	-	-	-	-	20,807
Investment earnings	32,140	7,246	14,971	7,777	(2,586)	(4,748)	(5,257)	412,400
Interest expense	(295,034)	(344,902)	(423,036)	-	(413,272)	(17,013)	(2,801)	(1,543,540)
Gain (loss) on disposition of assets	18,750	-	-	-	-	-	-	-
Grants and contributions	31,681	49,454	72,560	-	95,449	967,495	-	1,120,911
Bond premiums	384	3,381	13,523	-	-	-	-	19,800
Landfill closure and postclosure care	-	-	-	-	(1,678,686)	-	-	(604,027)
Total nonoperating revenue (expense)	(198,054)	(284,821)	(321,982)	7,777	(1,999,095)	945,734	(8,058)	(573,649)
Income before capital contributions, grants and transfers	920,151	(712,419)	1,206,201	99,288	(1,163,762)	(250,499)	(243,935)	628,087
Capital contributions and grants	330,183	-	414,459	-	-	-	163,465	3,325,301
Transfers in	21,000	7,754,511	3,989,924	3,989,924	1,648,409	985,500	90,000	1,483,505
Transfers (out)	(717,300)	(263,400)	(309,200)	(1,923,409)	(3,989,924)	(7,740,211)	(112,259)	(1,383,798)
Total contributions and transfers	(386,117)	7,491,111	105,259	2,066,515	(2,341,515)	(6,754,711)	141,206	3,425,008
Change in net position	554,034	6,778,692	1,311,460	2,165,803	(3,505,277)	(7,005,210)	(102,729)	4,053,095
Total net position - beginning	34,272,179	40,130,645	39,684,591	2,989,315	3,505,277	12,260,953	11,861,650	128,789,866
Total net position - ending	\$ 34,826,213	\$ 46,909,337	\$ 40,996,051	\$ 5,155,118	\$ -	\$ 5,255,743	\$ 11,758,921	\$ 132,842,960
Change in net position of business-type activities								4,053,095
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds, and other Interfund activity								299,885
Change in net position of business-type activities								\$ 4,352,980

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities - 2013							Total	2013		2012	
	Enterprise Funds			Internal Service Funds					Governmental	Enterprise	Business-type	Enterprise
	Electric Utility	Water Utility	Wastewater Utility	Solid Waste Collection Utility	Solid Waste Transfer Station/Landfill Utility	Nonmajor Proprietary Funds		Internal Service Funds	Funds	Funds	Funds	
CASH FLOWS FROM OPERATING ACTIVITIES												
Receipts from customers and users	\$ 34,644,039	\$ 4,858,295	\$ 6,420,162	\$ 3,327,700	\$ 5,493,468	\$ 2,316,432	\$ 57,060,096	\$ 8,215,965	\$ 55,242,833			
Payments to suppliers	(25,565,681)	(825,808)	(1,346,545)	(1,179,223)	(4,556,250)	(831,731)	(34,305,238)	(6,458,297)	(31,798,595)			
Payments to employees	(2,242,027)	(1,132,465)	(1,021,438)	(454,468)	(284,659)	(1,308,106)	(6,443,164)	(955,657)	(6,470,007)			
Payments for taxes	(3,125,950)	(608,638)	(843,481)	(332,753)	(582,884)	(1,106,664)	(5,611,571)	(4,302)	(5,869,903)			
Payments for interfund services	(2,194,357)	(1,362,476)	(1,400,759)	(676,616)	(446,176)	(1,086,867)	(7,127,244)	(195,899)	(6,577,861)			
Net cash provided (used) by operating activities	1,576,025	907,706	1,807,939	684,640	(386,503)	(1,016,926)	3,572,880	601,808	4,526,448			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES												
Grants & contributions received	15,204	-	68,747	-	-	770,627	854,578	-	1,239,026			
Landfill closure/post closure related expenses	-	-	-	-	(1,678,686)	-	(1,678,686)	-	(347,411)			
Transfers in (for noncapital purposes)	(694,200)	(30,000)	(230,000)	(3,467,685)	(1,648,409)	965,500	(13,817,305)	-	1,122,985			
Transfers out (for noncapital purposes)	(678,986)	7,685,711	(161,253)	(1,669,276)	(3,497,962)	(6,506,000)	(919,225)	(113,823)	(887,729)			
Net cash provided (used) by noncapital financing activities	51,069	7,655,711	(161,253)	1,669,276	(3,497,962)	(6,506,000)	(919,225)	(113,823)	1,126,871			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES												
Capital contributions received	18,750	-	-	-	-	-	18,750	10,425	220,880			
Gain (loss) on disposal of assets	-	-	-	-	-	-	-	-	-			
Intergovernmental	-	-	-	-	-	-	-	-	-			
Interest earned on bonds	18,021	17,327	19,243	-	-	-	54,592	-	67,820			
Principal paid on capital debt	(406,056)	(681,407)	(1,119,908)	-	(310,949)	-	(2,418,320)	-	(2,008,812)			
Interest paid on capital debt	(343,587)	(357,055)	(295,302)	-	(379,617)	(13,396)	(1,388,958)	-	(1,497,453)			
Proceeds from capital grants	-	-	-	-	-	159,659	159,659	72,102	3,113,672			
Transfer in (for capital purposes)	21,000	-	-	-	-	-	21,000	90,000	300,000			
Transfer in (for capital debt)	(23,100)	38,800	(64,200)	-	-	-	(15,400)	-	38,976			
Transfer out (for capital debt)	-	(126,300)	(25,000)	-	-	-	(150,000)	-	(204,069)			
Transfers out (for capital purposes)	(433,154)	(281,425)	911,261	(125,000)	(30,333)	(255,574)	(92,677)	(1,000,619)	(292,000)			
Acquisition and construction of capital assets (net)	(1,097,057)	(1,315,059)	(563,906)	(128,452)	(720,899)	(109,311)	(3,934,685)	(828,092)	(10,825,351)			
Net cash provided (used) by capital and related financing activities	12,146	(9,361)	(10,942)	6,657	(1,127)	(7,070)	(6,996)	(6,307)	365,399			
CASH FLOWS FROM INVESTING ACTIVITIES												
Investment earnings	12,146	(9,361)	(10,942)	6,657	(1,127)	(7,070)	(6,996)	(6,307)	365,399			
Net cash provided (used) by investing activities	12,146	(9,361)	(10,942)	6,657	(1,127)	(7,070)	(6,996)	(6,307)	365,399			
Net increase (decrease) in cash and cash equivalents	(187,883)	7,268,997	1,071,838	2,232,121	(4,606,491)	(7,069,308)	(1,290,725)	(346,413)	(4,806,634)			
Cash and cash equivalents-January 1	9,727,323	5,335,245	12,221,580	2,703,460	4,606,491	9,667,242	44,261,339	6,963,352	49,067,974			
Cash and cash equivalents-December 31	\$ 9,539,440	\$ 12,604,242	\$ 13,293,418	\$ 4,935,581	\$ -	\$ 2,597,934	\$ 42,970,613	\$ 6,636,939	\$ 44,261,339			

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities - 2013							2013		2012	
	Electric Utility	Water Utility	Wastewater Utility	Solid Waste Collection Utility	Solid Waste Transfer Station/Landfill Utility	Nonmajor Proprietary Funds	Total	Governmental Internal Service Funds	Business-type Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES											
Operating income (loss)	\$ 1,118,205	\$ (427,598)	\$ 1,528,183	\$ 91,511	\$ 835,333	\$ (1,196,233)	\$ 1,949,401	\$ (235,877)	\$	\$ 1,201,736	
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:											
Depreciation expense	1,366,334	1,408,024	1,638,092	4,544	332,784	113,842	4,863,620	858,786		4,629,142	
Increase/decrease in assets and liabilities:											
Receivables	(151,037)	(33,351)	25,651	(425,638)	302,768	55,602	(226,005)	180		(206,243)	
Due from other funds/governments	12,612	(61,526)	18,859	(52,982)	(493,603)	(26,634)	(603,274)	-		(14,354)	
Inventories	(153,353)	13,699	-	-	-	-	(139,654)	2,347		(255,844)	
Accounts and vendor payables	(704,095)	17,399	(1,362,538)	963,315	(879,886)	16,981	(1,948,824)	(54,854)		(696,430)	
Deposits and other payables	28,397	125	-	-	-	-	28,522	-		32,803	
Payable to other funds	-	-	-	-	-	-	-	-		(115,238)	
Payable to other governments	(150)	1,014	(1,301)	0	(12,530)	-	(12,966)	(10)		(16,939)	
Other accrued liabilities	59,112	(10,079)	(39,006)	103,889	(471,370)	19,516	(337,939)	31,236		(32,164)	
Net cash provided (used) by operating activities	\$ 1,576,024	\$ 907,706	\$ 1,807,939	\$ 684,640	\$ (386,503)	\$ (1,016,927)	\$ 3,572,879	\$ 601,808	\$	\$ 4,526,447	

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	2013		2012	
	Firemen's Pension Trust Fund	Agency Funds	Firemen's Pension Trust Fund	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 217,557	\$ 11,066	\$ 271,296	\$ 8,103
Receivables:				
Customer accounts	-	10,845	-	12,764
Interest and dividends	775	-	955	-
Total receivables	<u>775</u>	<u>10,845</u>	<u>955</u>	<u>12,764</u>
Investments, at fair value:				
Mutual Funds	343,522	-	267,823	-
Total investments	<u>343,522</u>	<u>-</u>	<u>267,823</u>	<u>-</u>
Total assets	<u>\$ 561,854</u>	<u>\$ 21,911</u>	<u>\$ 540,074</u>	<u>\$ 20,867</u>
LIABILITIES				
Accounts payable	\$ 552	\$ 6,374	\$ 380	\$ 4,585
Other liabilities	(5)	15,537	-	16,282
Total liabilities	<u>547</u>	<u>21,911</u>	<u>380</u>	<u>20,867</u>
NET POSITION				
Held in trust for pension benefits and other purposes	<u>\$ 561,307</u>	<u>\$ -</u>	<u>\$ 539,694</u>	<u>\$ -</u>

The Accompanying Notes Are An Integral Part of This Statement

Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Firemen's Pension Trust Fund
For the Year Ended December 31, 2013

	<u>2013</u>	<u>2012</u>
ADDITIONS		
Contributions	\$ 20,544	\$ 19,383
Total contributions	<u>20,544</u>	<u>19,383</u>
Investment earnings		
Interest	<u>75,317</u>	<u>37,868</u>
Total investment earnings	<u>75,317</u>	<u>37,868</u>
Total additions	<u>95,861</u>	<u>57,251</u>
DEDUCTIONS		
Benefits	<u>74,248</u>	<u>142,345</u>
Total deductions	<u>74,248</u>	<u>142,345</u>
Change in net assets	21,613	(85,094)
Net assets - beginning of the year	<u>539,694</u>	<u>624,788</u>
Net assets - end of the year	<u>\$ 561,307</u>	<u>\$ 539,694</u>

The Accompanying Notes Are An Integral Part of This Statement

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Port Angeles was incorporated on June 11, 1890, and operates under the laws of Washington applicable to GAAP cities. The City operates under a Council-City Manager form of government. The governing body consists of seven elected council members who select a mayor from that group. The mayor and council members are each elected to serve a four-year term. The City Manager administers policies and coordinates the activities of the City. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager.

The City is a general-purpose government and provides police, fire, emergency medical service, street maintenance, planning and zoning, permits and inspection, park and recreation, customer service, and general administrative services. In addition, the City provides utility services including water and electric distribution, water treatment and distribution, wastewater collection and treatment, sanitation, solid waste collection, solid waste transfer, stormwater, Medic I, and electric conservation services.

The financial statements of the City of Port Angeles have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City's financial statements present the City of Port Angeles as the primary government.

B. Basic Financial Statements

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The General Fund is the City's primary operating fund and is one of two major governmental funds, the other is the Capital Improvement Fund. Electric, Water, Wastewater, Solid Waste Transfer Station and Solid Waste Collection are the major business-type funds. These funds account for all activities necessary to provide electric, water, sewer, and garbage collection and transfer services to City customers.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Agency funds have no measurement focus.

Under the modified accrual basis of accounting, property taxes, sales taxes, utility taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 33. When the expenditure is incurred, grant revenue is considered to have been earned and therefore available and recognized as revenue. Entitlement grant revenue is not tied to expenditures and is recognized when the City is entitled to receive it according to the grant agreement. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

D. Financial Statement Presentation

The City reports the following major governmental funds:

- The **General Fund** is the general operating fund of the City. It accounts for all financial resources and transactions except those required to be accounted for in another fund.
- The **Capital Improvement Fund** accounts for monies related to the acquisition, construction or replacement of major governmental capital facilities.

The City reports the following major proprietary funds:

- The **Electric Fund** accounts for the provision of electric and telecommunications services to the residents and businesses of the City. All activities necessary to provide such services, including administration, financing, construction, and related debt service are accounted for in this fund.
- The **Water Fund** accounts for revenues and expenses related to providing water service to City residents and businesses. All activities necessary to provide such services, including administration, financing, construction, and related debt service are accounted for in this fund.

In 2013, the Water Treatment Plant Fund was closed into the Water Fund as it did not meet the technical terms of a stand-alone Enterprise Fund.

- The **Wastewater Fund** accounts for revenues and expenses related to providing sanitary sewer service and related harbor clean up to City residents and businesses. All activities necessary to provide such services, including administration, financing, construction, and related debt service are accounted for in this fund.
- The **Solid Waste Transfer Station/Landfill Fund** accounts for all revenues and expenses related to the operation and maintenance of the City's transfer station and moderate risk waste facility, including landfill post-closure care.
- The **Solid Waste Collections Fund** accounts for activities related to the provision of solid waste collection services.

Additionally, the City reports the following fund types:

- **Special revenue funds** are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects.
- **Debt service funds** account for the accumulation of resources to be used for the retirement of general long-term debt. In 2013, the 2001 G.O. Refunding Bond Fund closed into the 2005 G.O. Refunding Bond Fund.
- **Capital projects funds** are used to account for financial resources (1) that are restricted or legally limited to expenditures for or (2) that a government has publicly expressed its intention to use for the acquisition or construction of major capital facilities.
- **Internal service funds** are used to account for the financing of specific services performed by designated sections within the City for other organizations within the City on a cost reimbursement basis. The City uses internal service funds for fleet maintenance, information technology, and insurance services.

At the end of 2013, a transfer was made from the Cultural Resources Internal Service Fund to the newly created Cultural Resources division in the General Fund in order to close the fund. Effective January 2014, archaeology activities will be accounted for in the General Fund.

- **Permanent funds** are a governmental fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that

support the reporting government's programs. The City reports the Esther Webster Fine Arts Center fund, and the Cemetery Endowment fund.

- **Agency funds** are one of four fiduciary fund types that account for assets held by the City as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City has two agency funds: off-street parking, and utility contribution program fund.
- **Pension trust funds** are a fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans. The City has the Firemen's Pension fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal service funds for fleet maintenance and information technology. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions. Exceptions to this general rule are other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utility funds and internal service funds are charges to customers for sales and services, vehicle replacement, and insurance. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgetary Information

1. Scope of Budget - Annual appropriated budgets are adopted for the general fund, special revenue funds, debt service funds, and the Esther Webster Fine Arts Center Permanent Fund on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of the debt issues or projects. For these governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. The Governmental Accounting Standards Board (GASB)

does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Annual appropriated budgets are adopted at the fund level and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

2. Amending the Budget - The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of permanently authorized employee positions, salary ranges or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by an ordinance approved either by a simple majority (for new revenues) or a super majority (if funds are coming from reserves).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocation, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

3. Excess of Expenditures Over Appropriations - For the year ended December 31, 2013, expenditures exceeded appropriations at the fund level in the following budgeted funds:

- The 2001 Refunding G.O. Bond Debt Service Fund exceeded budgeted expenditures by \$5,515. This occurred because this fund was closed at year-end and the transfer of the remaining fund balance to the 2005 Refunding G.O. Bond Fund was not budgeted.
- The Real Estate Excise Tax #2 Fund exceeded expenditures by \$60 due to rounding the budget to the nearest hundred, while actual expenses were slightly higher than budget.

F. Assets, Liabilities, and Equities

1. Cash and Investments

It is the City's policy to invest temporary cash surpluses. These investments are reported on the statement of net assets and the governmental funds balance sheet as cash and cash equivalents or investments. Included in cash and cash equivalents are currency on hand, demand deposits with banks or other financial institutions, investments with the Local Government Investment Pool, investments in U.S. Government Mutual Funds and investments with original maturities of three months or less. Interest is allocated to each fund on the basis of average daily cash balance, with the following exceptions: the General Fund receives the interest distribution for the Contingency Special Revenue fund, Capital Improvement fund, 8th Street Bridges Capital Project fund, and Agency funds.

In accordance with City policy and Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, US Treasury and Agency Securities, bankers' acceptances, bonds of Washington state and any local government in Washington state which have, at the time of purchase, one of the three highest credit ratings of a nationally recognized rating agency, the State Investment Pool (which is an unrated 2a7-like pool), and mutual funds used specifically for debt issues related to arbitrage.

To qualify as public depositories in the State of Washington, financial institutions are required to provide collateral to the Washington State Public Deposit Protection Commission in an amount equal to 100% of all public deposits held by the depository. This guideline basically provides that in the event of default of a qualified public depository, all other qualified public depositories will collectively assure that no loss of funds will be suffered by any public entity.

The City reports its deposit and investment risk disclosures in accordance with GASB 40 (see Note 4).

In accordance with GASB 31, investments in external 2a7-like pools, money market investments, and participating interest-earning investment contracts with remaining maturities of one year or less at the time of purchase are stated at amortized cost. All other investments including the Firemen's Pension Fund are stated at fair value based upon quoted market prices as of the end of the year.

2. Receivables

Taxes Receivable - consist of property taxes and related interest and penalties. See Note 5 - Property Taxes.

Accrued Interest Receivable - consists of interest earned on investments at the end of the year in proprietary funds, accrued interest on investments purchased between interest dates in governmental funds, and interest and penalties on special assessment receivables.

Special Assessments Receivable - Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefitted.

Customer Accounts Receivable - consist of amounts owed by private individuals or organizations for goods and services including amounts owed for which billing has not been prepared.

Notes and Contracts Receivable - consist of amounts owed on open account from private individuals and organizations for good and services rendered.

3. Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note 12 – Interfund Transactions.

4. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. Using the consumption method, the cost is recorded as inventory at the time the individual inventory items are purchased, and then expensed as the items are used.

Inventories in the proprietary funds are valued by the weighted average method (which approximates the market value). A perpetual inventory is maintained in which the cost is capitalized when inventory items are purchased and expensed when the item is consumed using the consumption method. A physical inventory is taken at least once during each year.

5. Restricted Assets

In accordance with the utility bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including, debt service, customer deposits, workers' compensation, permanent fund activities, and landfill postclosure care.

6. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements net of accumulated depreciation. Capital assets acquired in governmental funds are accounted for as expenditures when the asset is purchased. Capital assets of enterprise and internal service funds are recorded at historical cost and accounted for in their respective funds.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$7,500 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repair that does not materially add to the life or value of the asset is not capitalized. In addition, the capitalization threshold for major projects has been established at \$30,000.

In the application of GASB 34, governmental fund acquired capital assets of the City are depreciated. Depreciation of governmental fund assets are included as an expense in the Statement of Activities by function. Capital assets used by governmental and proprietary funds are depreciated and the accumulated depreciation is reported in the Statement of Net Assets. Annual depreciation is recorded as an expense of the fund.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following useful lives:

Asset	Estimated Useful Life
Buildings & Structures	45-50 Years
Improvements Other Than Buildings	5-50 Years
Machinery & Equipment	2-20 Years
Roadways	25-80 Years

7. Compensated Absences

Compensated Absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred and reported in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation leave is accumulated monthly at annual rates ranging from 11 to 43 days depending on tenure and union agreements. Employees may accumulate up to a maximum of 960 hours, inclusive of current year accruals, depending on contracts. All outstanding vacation leave is payable upon resignation, retirement, or death, to all employees having completed six months of service.

Sick Leave can have unlimited accumulation, with payoff limits depending on contract. The monthly rate for forty hour per week employees is eight hours. Fire department shift employees are credited with 288 hours for sick leave upon employment and after one year start accruing between twelve and twenty-four hours per month, depending on length of employment. Ten to twenty-five percent of unused sick leave is payable at time of retirement, death, or resignation depending on length of employment. Any outstanding sick leave is lost at termination.

8. Other Post-Employment Benefits

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Assets. The actual medical costs are reported as expenditures in the year they are incurred.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Unearned Revenue

This revenue source includes inflows that have not yet been earned or that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as unearned revenue. In governmental funds, earned amounts are reported as unearned revenue until they are available to liquidate liabilities of the current period.

12. Fund Equity

The City implemented GASB 54 for the fiscal year ending December 31, 2010. This pronouncement changed how the City classified fund balances to better identify available resources and assess liquidity and financial flexibility. Fund balances are categorized as Nonspendable or Spendable amounts as indicated below. These classifications were adopted by Council in late 2011 as part of the City's Financial Management Policy.

Nonspendable Fund Balance: fund resources that are in a form that either *never* could be spent or in a form that is *temporarily* non spendable. This can include resources that are spendable in form, but are under legal restrictions that temporarily or permanently bar spending.

Spendable amounts are further segregated into categories based on the degree to which the uses of resources are constrained.

Restricted Fund Balance: fund resources that are subject to restrictions that are *legally enforceable* by *outside parties*. This includes resources raised through enabling legislation.

Committed Fund Balance: fund resources that are legally limited by the *highest level* decision making in the entity. *Formal action* must be taken to impose limitations on the use of these resources, and *equivalent formal action* is required to modify or eliminate those limitations. For Port Angeles, the highest level of decision making authority is the City Council and the formal action would be adoption of an ordinance.

Assigned Fund Balance: fund resources that are limited by the entity for its intended use. This type of limitation can be imposed by the highest level of decision making within the entity or a designee, but little or no formal action is required to modify or eliminate those limitations. The highest level in Port Angeles is the City Manager or his designee.

Unassigned Fund Balance: fund resources that are in spendable form and are not restricted, committed or assigned.

The primary flow assumption utilized by the City is:

1. Restricted
2. Committed
3. Assigned
4. Unassigned.

The flow assumption is reviewed for each project to ensure that the proper resources are being used.

13. Minimum Fund Balance

The City of Port Angeles has a policy in place that specifies the minimum fund balance for the different fund types. The policy generally states that the General Fund's targeted unassigned fund balance will be a minimum of 10% of expenditures, excluding capital expenditures. Enterprise funds will maintain a level of operating reserves which will provide sufficient cash flow to meet daily financial needs. In addition, City policy states that there will be sufficient reserves maintained to comply with bond indenture agreements, to provide health care and worker's compensation benefits, to replace vehicles and equipment as required, and to avoid catastrophic loss.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

This reconciliation can be found in the Basic Financial Statements section.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 4 – CASH AND INVESTMENTS

The City of Port Angeles' deposits and certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The FDIC insures the first \$250,000 of the City's deposits. The deposit balances over \$250,000 are insured by the PDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the PDPC pool in the event the pool's collateral should be insufficient to cover a loss.

As of December 31, 2013, the City Treasurer was holding \$57,680,763 in short-term residual investments; Firemen's Pension investments of \$343,522; cash in agency funds of \$95,926; Fine Arts Center investments of \$827,520; and bank account balances of \$5,122,366 for a total cash and cash equivalent of \$64,070,097. Included in this total is fiduciary funds pooled cash of \$228,623. The government-wide statement of net assets includes \$63,497,951 in investments and cash/cash equivalents for governmental, proprietary and permanent funds. Fiduciary funds amount to \$572,145.

The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the City's pool investments is determined by the pool's share price. The City has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The City includes the LGIP as an investment for internal tracking, but it is disclosed on the financial statements as a cash equivalent.

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Interest rate risk. Interest rate risk is the risk that fluctuations in interest rates over time will adversely affect the fair value of an investment. To manage its exposure to declines in fair values, the City adopted an investment policy that limits the weighted *average* maturity of its investment portfolio to less than 24 months, with overall maturities no longer than 5 years.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages its exposure to concentration of credit risk for the City's investments portfolio as a whole. With the exception of US Treasury securities and the State Investment Pool, no more than 50% of the City's total investment portfolio shall be invested in a single financial institution.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by state law, it is the City's policy to limit its investments in debt securities to the obligations of the US Government, US Agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer's Local Government Investment Pool (LGIP), or certificates of deposit with Washington State Banks and savings and loan institutions. The policy of the LGIP is to invest in securities and instruments that are rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Investors Services, Inc. For purchasing certificates of deposits (CD's), the City's investments are limited to 85% of net worth of such institution, and are accepted by the Public Deposit Protection Commission (PDPC) or properly collateralized as required by the state for amounts exceeding FDIC and FSLIC coverage.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in possession of an outside party. All of the City's investments are insured, registered, and held by its agents in the City's name.

Cash and Investments as of December 31, 2013

	Fair Value		
	Cost	Pooled Cash	Fiduciary/ Agency Funds
Investments:			
U.S. Government Agency Securities	\$52,351,136	\$51,752,847	\$ -
Certificate of Deposits	535,810	535,810	-
Subtotal	52,886,946	52,288,657	-
Investments not subject to categorization:			
Local Government Investment Pool	5,392,105	5,392,105	-
Other (Firemen's Pension)	343,522	-	343,522
Total Investments	58,622,573	57,680,762	343,522
Cash		5,122,366	-
Pooled Cash in Fiduciary & Agency Funds		(228,623)	228,623
Cemetery Endowment CD's		95,926	-
Fine Arts Center		827,520	-
Total Cash & Investments		\$ 63,497,951	\$ 572,145

As of December 31, 2013, the cash balance included:

Petty cash & Advanced Travel	22,050
Deposits in Transit	107,199
Bank balance per books	4,993,117
Total Cash Balance	\$ 5,122,366

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Certificates of Deposit in Pooled Investments	Value	Maturities	
		<12 Months	13-24 Months
First Federal Savings & Loan	535,810	535,810	-
Total	\$ 535,810	\$ 535,810	\$ -

Investment Type	Market Value	Investment Maturities			Moody's Credit Rating
		<12 Months	13-24 Months	>25 months	
Federal Farm Credit Bank	2,010,515	2,010,515	-	-	Aaa
Federal Farm Credit Bank Callable	3,481,715	-	-	3,481,715	Aaa
Federal Home Loan Bank	10,142,223	6,088,779	3,045,297	1,008,147	Aaa
Federal Home Loan Bank Callable	1,981,741	-	-	1,981,741	Aaa
Federal Home Loan Mortgage Corporation	1,000,335	1,000,335	-	-	Aaa
Federal Home Loan Mortgage Corp Callable	7,892,075	1,001,641	-	6,890,434	Aaa
Federal National Mortgage Association	3,041,545	1,008,750	1,031,596	1,001,199	Aaa
Federal National Mortgage Association Callable	19,962,720	-	-	19,962,720	Aaa
Financing Corporation	991,724	-	-	991,724	Aaa
Municipal Bonds	1,248,254	-	-	1,248,254	Aaa
Certificates of Deposit	535,810	535,810	-	-	Aaa
Subtotal	52,288,657	11,645,830	4,076,893	36,565,934	
Certificates of Deposit-Cemetery Endowment	95,926	-	95,926	-	Aaa
Total	52,384,583	11,645,830	4,172,819	36,565,934	

The Esther Webster Trust is managed by D. A. Davidson as a trust under agreement dated July 19, 1993. Fair value of the investments as of December 31, 2013, was \$827,520.

NOTE 5 — PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property value listed as of the prior May 31. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is conducted every six years. The County Treasurer remits collections monthly to the appropriate district. Collections are distributed on a monthly basis.

January 1	Taxes are levied and become an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installment payments is due
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due

Property taxes are recorded as a receivable when levied, offset by deferred revenue, even if collectible in the period subsequent to the levy. During the year, property tax revenues are recognized when cash

City of Port Angeles, Washington

is received. Most property taxes are collected during the year of levy, and delinquent taxes are immaterial. Prior year tax levies were recorded using the same principle, and delinquent taxes receivable are reevaluated annually. At year-end, property tax revenues are recognized for December collections to be distributed by the County Treasurer in January.

The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Assessed values are established by the County Auditor at 100% of the fair market value and adjusted each year based on market value changes. A physical verification of each property is made at least once every six years. The estimated assessed value is then changed to reflect the re-evaluation of fair market value.

There are two considerations in estimating property taxes after adjustments for new construction:

- In 2001, Washington State voters approved Initiative 747 which limited increases in property tax levy amounts to 1% of the prior year’s levy (excluding adjustments for new construction).
- The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation, or \$10 per \$1,000 of assessed value, of which the City may levy up to \$3.60 per \$1,000 of assessed value. According to State Law, the City is allowed to have a higher maximum levy rate because it has a Firemen’s Pension Plan. Library Districts are entitled to \$0.50 per \$1,000 of assessed valuation and the Library levy is deducted from the \$3.60 maximum available to the City. If the Library does not utilize its full \$0.50 of the levy, the City may assess the unused portion.

Regular property taxes are used to fund governmental activities in the General Fund. At the rate of \$2.78 per \$1,000 assessed value, the regular property tax levy for 2013 is \$4,225,781. The real and personal property value for the 2013 property tax levy is \$1,519,228,137.

Special levies approved by the voters are not subject to the preceding limitations. In 2013, the City levied \$0.20 per \$1,000 for debt service on the 2005 Refunding G.O. Bond (Library), for a total additional levy of \$286,400. The 2013 Special Levy was \$120,000 less than 2012 due to the maturity of the 2001 Refunding Bond in 2012.

2013 CITY PROPERTY TAX ALLOCATION		
Regular Levy	Amount	Rate
General Fund	\$4,225,781	\$2.78
Special Levy	Amount	Rate
2005 Refunding G.O. Bond (Library)	286,400	0.20
Total Property Tax Levy	\$4,512,181	\$2.98

City of Port Angeles, Washington

Property taxes levied for the current year are “available,” therefore recognized as revenue even though collectible in the period subsequent to the levy. The City’s property tax collection record shows that most of the property taxes due are collected during the year of the levy.

Property taxes receivable at December 31, 2013, consist of the following:

Property Taxes Receivable	Amount
General Levy	\$19,067
Senior Center and Fire Hall	37
Library	1,273
Total Property Taxes Receivable	\$20,379

NOTE 6 — CAPITAL ASSETS AND DEPRECIATION

A. Governmental Capital Assets

Governmental long-lived assets of the City purchased, leased, or constructed are recorded as expenditures in the governmental funds and are capitalized, net of depreciation, in the government-wide statements. This includes current year purchases or construction of governmental infrastructure assets. Annual depreciation is recorded as an expense in the government-wide statements.

B. Proprietary Fund Capital Assets

Capital assets for proprietary funds are capitalized in their respective statement of net assets. The capital assets are reported at cost or, if donated, at their estimated fair market value on the date donated. Donated capital assets are included in contributed capital. Interest expense during the construction period of proprietary capital assets is capitalized. Annual depreciation is recorded as an expense of the fund.

In accordance with FASB Statement 62, the City adopted the policy of capitalizing interest costs incurred during construction on funds borrowed to finance construction projects. For the year ended December 31, 2013, interest and other bond and loan costs were capitalized in connection with construction in progress in the following funds, Electric - \$179,306, Water - \$130,318, and Wastewater - \$66,226.

C. Capital Assets Activity

In 2013, the City of Port Angeles completed construction of Dry Creek Bridge and Trail, waterfront surveillance cameras, wireless mobile project, and various street and sidewalk projects. Please see the following pages for details.

Capital assets activity for the year ended December 31, 2013, was as follows:

City of Port Angeles, Washington

SUMMARY OF CHANGES IN CAPITAL ASSETS

Governmental Activities					
Description	2012 Balance	Increases	Decreases	Reinstatement/ Loss & Gain	2013 Balance
Capital assets not being depreciated:					
Land	12,464,126	-	-	-	12,464,126
Construction in progress	6,133,129	8,961,389	4,357,913	-	10,736,605
Total capital assets not being depreciated	18,597,255	8,961,389	4,357,913	-	23,200,731
Other capital assets:					
Buildings	18,922,844	21,523	-	-	18,944,367
Improvements	10,607,862	387,013	-	-	10,994,875
Infrastructure	58,623,512	2,708,506	-	-	61,332,018
Machinery and equipment	16,209,718	1,203,659	311,581	36,715	17,138,512
Total other capital assets at historical cost ¹	104,363,936	4,320,701	311,581	36,715	108,409,771
Less: accumulated depreciation for:					
Buildings	8,334,705	448,594	-	-	8,783,299
Improvements	3,008,110	304,876	-	-	3,312,986
Infrastructure	14,966,856	910,794	-	-	15,877,650
Machinery and equipment	9,839,814	1,130,908	298,853	37,213	10,709,082
Total accumulated depreciation	36,149,484	2,795,172	298,853	37,213	38,683,016
Governmental activities capital assets, net	86,811,707	10,486,918	4,370,641	(498)	92,927,486
Business-type activities					
Description	2012 Balance	Increases	Decreases	Transfers	2013 Balance
Capital assets not being depreciated:					
Land	1,883,945	-	-	-	1,883,945
Construction in progress	19,039,427	18,315,435	6,918,911	-	30,435,951
Total capital assets not being depreciated	20,923,372	18,315,435	6,918,911	-	32,319,896
Other capital assets:					
Buildings	1,697,410	-	-	-	1,697,410
Improvements	71,201,562	689,900	1,690,396	-	70,201,066
Utility Plant in service	100,988,910	6,056,811	-	-	107,045,721
Machinery and equipment	4,465,299	172,200	108,011	-	4,529,488
Total other capital assets at historical cost	178,353,182	6,918,911	1,798,407	-	183,473,686
Less: accumulated depreciation for:					
Buildings	560,184	74,363	-	-	634,547
Improvements	40,675,829	1,830,826	1,690,396	-	40,816,259
Utility Plant in service	29,316,772	2,782,228	-	-	32,099,000
Machinery and equipment	1,630,430	176,202	108,011	-	1,698,621
Total accumulated depreciation	72,183,215	4,863,619	1,798,407	-	75,248,427
Business-type activities capital assets, net	127,093,339	20,370,727	6,918,911	-	140,545,155

The Summary of Changes in Capital Assets table above shows all of the capital assets based on their respective asset classifications: land, buildings, improvements, infrastructure, machinery and equipment, and work in progress. The decrease in construction in progress is greater than the increase in capital assets because the City expensed projects that would not be completed in the near future. These include Race Street nodes, Race Street bike lanes and the East Entry Monument.

D. Depreciation

Depreciation expense was charged to functions of the government as follows:

Governmental Activities:	
General Government	\$ 534,743
Public Safety	297,299
Economic Environment	9,193
Utilities and Environment	93,047
Transportation	1,612,718
Culture and Recreation	248,172
Total Depreciation - Governmental Activities	\$ 2,795,172

Business-Type Activities:	
Electric Utility	\$ 1,366,334
Conservation Utility	1,935
Water Utility	1,408,024
Wastewater Utility	1,638,092
Solid Waste Collection Utility	4,544
Solid Waste Transfer Station/Landfill Utility	332,784
Stormwater Utility	94,901
Medic I Utility	17,006
Total Depreciation - Business-Type Activities	\$ 4,863,620

City of Port Angeles, Washington

E. Construction Commitments

The City of Port Angeles has active construction as of December 31, 2013.
Governmental Construction in Progress includes the following:

Fund 310	
FD0112 - Port Security Grant	\$ 21,385
GG9913 - City Hall Front counter remodel	7,591
PD0211 - Police dept carpeting	29,116
PD9913- Pencom Generator	56,178
PD9713 - 5 WAPS	41,299
PK0509- ODT Slide Repair (FEMA)	91,472
DR0113 - LID Green Alley Project	11,357
TR0111 - Marine Channel Bridge	12,676
TR0509 - Ediz Hook Erosion Repair	66,230
TR0609 - Tumwater Slide Repair	51,548
TR1899 - Laurel & Lauridsen Improvement	104,433
TR4299 - L. Blvd Bridge Widen	3,474,331
TR0203 - Waterfront Development	6,257,206
FD9913 - MDT project	41,996
Sub Total	<u>10,266,819</u>
Fund 502	
IT9813 - Dedicated IT Generator & HVAC	12,701
IT0111 - Electronic Records mgmt	135,601
IT0113 - Thin Client	19,529
IT0211 - Council Audio Visual	7,457
IT0213 - Virtual Desktop Interface	185,239
IT0312 - KVM Management Switches	37,940
IT0713 - Electrical Scada Server	288
IT9713 - Cognos Update	27,266
IT9912 - Executime software	43,764
Sub Total	<u>469,786</u>
	<u><u>\$ 10,736,606</u></u>

City of Port Angeles, Washington

The following Governmental amounts were capitalized in 2013:

Capital Improvement Fund

Asset # Description

1551	GG0111 - Aerial Mapping	\$ 74,864
1552	PC0112 - Pencom move	14,068
1553	PD0111 - City Hall Remodel	7,455
1555	PD0112 - WF Surveillance Cameras	256,122
2013	US1003 - Valley Crk Restoration Phase 3	143,677
2013	TR0512 - Street and Alley Paving	7,171
2013	TR0512 - Railroad Ave & 2nd/3rd Alley	92,311
2013	TR0612- "C" Street Extension	217,464
2013	US0531 - Dry Creek Bridge & Trail	935,204
1557	PK0111- Shane Park Playground	355,173
1556	No# - Fingerprint machine	10,881
1558	No# - Narrowbanding	11,798
1556	No# - Pencom Communications	1,237,814
		<u>3,364,003</u>

Information Technologies Fund

1571	IT0309 - Novell File Server OS Platform	247,454
1572	IT0311 - Redundant Data Center AC	55,911
1574	IT9913 - IT Remodel	22,898
		<u>326,263</u>

Equipment Services Fund

Various	Vehicles	667,149
		<u>667,149</u>

Total Governmental Capitalized **\$ 4,357,415**

City of Port Angeles, Washington

¹ Retirements in the Governmental section of Note 6 include:

	Asset Retired Cost
Retirements	
Wastewater Equipment	
#958	\$ 3,670
#960	3,732
	7,402
Electric Improvements	
#420	172,272
#421	70,408
#422	61,036
#375	75,536
#377	31,486
#379	370,793
#380	351,927
#381	556,938
	1,690,396
Electric Tools	
#474	94,141
	94,141
Water Equipment	
#622	4,299
#621	2,170
	6,469
Equipment Services	
Aljo Trailer	9,378
Trex Bucket	4,270
1990 Backhoe/Loader	40,238
1992 Rebuilt Manlift	29,179
1994 Pickup Truck	12,582
1994 Scooter	9,733
1995 Pickup Truck	17,230
1997 Field Rake	7,375
1999 Patrol Car	22,313
1999 Police Car	13,595
2000 Patrol Car	22,313
2001 Patrol Car	24,043
2003 Patrol Car	28,741
2004 Patrol Car	27,853
2005 4-dr Sedan	16,802
2010 Rebuild	17,092
2012 Rebuild	4,349
Total -	307,086
loss on sale of asset Terex Bucket	(498)
Information Technology	
Software, E-mail	4,993
	4,993
Decreases in Governmental Assets	311,581
Reinstated assets (retired in 2012 but still in use in 2013)	37,216
	37,216

There is no clear project to continue with these design/studies and they were expensed from CIP:

TR0209 - Race Street Bike Lanes	10,966
TR1009 - Race Street Nodes	11,293
GG0309 - East Entry Monument	25,731
	\$ 47,991

City of Port Angeles, Washington

Business-Type Construction in Progress includes the following:

CL0106 -Eclipse Feeder Upgrade	\$ 216,596
CL0206 - A Street substation	26,507
CL0210 - Washington/I St Xmission	4,212
CL0308 - Advanced Metering	1,580,954
CL0612 - Upgrade Downtown Light Poles	21,721
CL0812 - Substn Lightning Strike	15,618
US0520 - Elec Tie -Hwy101/Cherry	12,763
Electric Fund	<u>1,878,370</u>
WT0108 - Advanced metering - WT	710,243
WT0109 - E St Reservoir Cover	95,975
WT0206 - Biennial Water Replacement	126
WT0206 - Biennial Water Replacement	250
Water Fund	<u>806,594</u>
US0601 - CSO Phase I	25,031,351
WW1008 - CSO Phase 2	1,037,746
US1001 - Advanced metering -WW	317,861
WW0111- Sanitary Sewer	19,992
WW0113 - EUGA pump stn	51,669
WW0108 - Dry Polymer Feeder Replacement	468
WW0205 - WWTP Dewatering Improvement	45
WW0208 - Septage Receiving Station	50,705
WW0210 - Programmable Logic Controller	266,359
WW0211- fiber optics to CSO lines	13,099
WW0305-Plant Headworks Improv	33
WW0308 - Pump Stn#3	111,754
WW0408 - Carbon Scrubbers WWTP	-
WW0506 - Sewer Trestle Francis/8th St	280,327
WW0608 - Waste Activated Sludge TP	-
WW9913 - WWTP Phone Upgrade	949
WW2799 - Biennial replacements	170
Wastewater Fund	<u>27,182,529</u>
DR0111 - Dry Creek LWD	6,547
DR0212 - Peabody Creek Fecal Reduction	170
DR0309 - 4th & H Street Stormwater	547,910
DR0401 - Outfalls to Streams and Marine	2,187
DR0404 - Canyon Edge & Ahlvers	7,950
DR0411 - Valley Creek Culvert	3,124
DR1499 - Peabody Creek Culvert	570
Stormwater Fund	<u>568,458</u>
Total Construction in Progress	<u>\$ 30,435,951</u>

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The following Business-Type Fund items were capitalized in 2013:

Electric CL0211 - Repair U/G Cables	\$ 119,213
Electric CL0511 - BTOP Wireless Project	3,200,296
Electric CL0512 - Cable Restoration V	102,430
Electric CL0607 - Electric Dist Line Construction	234,449
Electric CL0712 - Washington Sub Transformer	689,901
Electric CL1309 - Morse Creek Hydro SCADA	65,894
Electric Capitalize Interest 2010 Bond	179,306
Electric Narrowbanding	4,286
Electric Racking Device for transformer	29,241
Electric New construction-Electric	531,858
Water WT0209 - Trans Line Replacement	1,506,999
Water Capitalize Interest 2010 Bond	130,319
Water Narrowbanding	4,710
Wastewater Narrowbanding	32,936
Wastewater Capitalize Interest 2010 Bond	66,226
SW Transfer Station SW9913 - Compost Stn Improvement	17,396
SW Collection Narrowbanding	3,452
	<u>6,918,911</u>
	<u><u>\$ 6,918,911</u></u>

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At year-end the total governmental/utility commitment with contractors are as follows:

Project	Contractual Amounts	Spent To Date	Remaining Commitment
Capital Improvement Fund:			
Government:			
Studio Cascade - Waterfront and Trans Plan	\$ 1,362,755	\$ 1,351,973	\$ 10,782
ExcelTech Consulting - Lauridsen Bridge & Intersection	1,262,259	1,096,497	165,762
IMCO General Construction	11,825,579	11,316,280	509,299
Scarsella Bros. Inc	4,496,380	2,145,659	2,350,720
Vanir Construction - Waterfront Development	299,005	285,579	13,427
Information Technology:			
Lindberg and Associates	60,500	56,266	4,234
Executime Software	39,566	33,235	6,331
			-
Electric Utility:			
KVA Electric, Inc	25,863	-	25,863
Wastewater Utility :			
Brown & Caldwell	3,520,154	1,391,964	2,128,190
Brown & Caldwell	420,592	318,393	102,199
Vanir Construction Management, Inc	1,668,372	1,535,603	132,769
Farallon Consulting, LLC	341,471	327,313	14,157
Integral Consulting, Inc	226,299	145,133	81,166
Richard Phillips Marine, Inc	390,560	359,956	30,604
Stormwater Utility:			
Herrera Enviromental Consulting - Closure	94,482	78,672	15,811
Herrera Enviromental Consulting - Closure	2,480,575	1,280,618	1,199,958
Pace Engineering - 4th St Improvements	2,558	956	1,602
Solid Waste Utility Projects:			
Herrera Enviromental Consulting - Landfill bluff	94,482	78,672	15,811
Aspect Consulting, LLC	25,805	-	25,805
Total Capital Design and Construction Contracts Outstanding			
	28,637,257	21,802,769	6,834,488
TOTAL CONTRACTS OUTSTANDING	\$ 28,637,257	\$ 21,802,769	\$ 6,834,488

NOTE 7 — PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P. O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*, and Statement 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Plan 1 members are vested after completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the

choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the average final compensation per year of service. (The average final compensation is the monthly average of the 60 consecutive highest paid service months).

Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if twelve months of that service are earned after age 44; or

after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined benefit retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or

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if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Statewide membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Retirees and Beneficiaries Receiving Benefits	76,899
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	<u>262,285</u>

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6% for state agencies and local government unit employees, and at 7.5 % for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5% to 15%, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**Plan 3 defined benefit portion only.

***Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City of Port Angeles and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

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	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$25,787	\$747,804	\$168,879
2012	23,563	647,986	138,059
2011	24,661	579,274	120,076

Law Enforcement Officers’ and Firefighters’ Retirement System (LEOFF) Plans 1 and 2

Plan Description

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board’s duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary (FAS) is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months’ salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS;

or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

Plan 2 members are vested after completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least ten percent of FAS and two percent per year of service beyond five years. The first ten percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receives retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington State Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

Statewide membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Terminated Plan Members Entitled to But Not Yet Receiving Benefits	782
Retirees and Beneficiaries Receiving Benefits	9,647
Active Plan Members Vested	13,420
Active Plan Members Non-vested	<u>3,656</u>
Total	<u>27,505</u>

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated 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 requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, were as follows:

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	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%
Employee	0.00%	8.41%
State	0.00%	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.

Both the City of Port Angeles and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2013	\$0	\$232,711
2012	0	233,527
2011	0	234,901

Volunteer Firemen's Relief and Pension

The Volunteer Fire Fighters' Relief and Pension System is a cost-sharing multiple-employer retirement system that was created by the Legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability, and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State, except those covered by LEOFF. The system is funded through employer contributions of \$60 per year, plus \$30 for disability. Members do not earn interest on their contributions; however, they may elect to withdraw their contribution upon termination.

Firemen's Pension

Plan Description

The City's Firemen's Pension Board administers the Firemen's Pension Plan (FPP), a closed, single-employer defined benefit pension plan established and amended in conformance with Chapter 41.18 RCW. The FPP provides retirement, disability, long-term care, and death benefits to firefighters (hired prior to March 1, 1970) and their beneficiaries. As of December 31, 2013, six individuals are covered by this system. An actuarial study of the FPP was performed by City of Port Angeles staff to determine funding requirements as of January 1, 2014. This report is available by writing to: City of Port Angeles Finance Department, P. O. Box 1150, Port Angeles, WA 98362.

Eligibility - All members are vested. Normal retirement occurs after service for a period of 25 years or more and attainment of age 50.

Benefit - 50% of basic salary plus an additional 2% of basic salary for each year of service in excess of 25 to a maximum of five additional years (maximum benefit of 60% of base salary).

Benefit Increase - For service retirement before July 1, 1969, increases in pace with the Consumer Price Index (Seattle), with a minimum annual increase of 2%.

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Summary of significant accounting policies. The Firemen’s Pension Fund (FPF) is reported as a trust fund in the financial statements using the accrual basis of accounting. Plan member contributions (which ceased when LEOFF was established) are recognized in the period in which the contributions are due. The city’s contributions (which are not actuarially required at this time) are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at market value. The FPP’s net assets as of December 31, 2013, were \$611,800. The following table identifies the concentration of investments as compared to the FPP’s net assets:

FPP Net Assets	Investment	Balance	Investment as a % of Net Assets
	Aberdeen Funds (Mutual Fund)	\$ 291,714	48%
	Ivy Funds (Mutual Fund)	\$ 51,807	8%
\$ 611,800	Total Investments, at market	\$ 343,522	

Funding Policy

The benefits are a result of coordination of benefits between the FPP and the Washington State LEOFF system. If the amount of benefits provided by the Firemen’s Pension Retirement System exceeds the benefits provided by the LEOFF system, the City pays the difference between the two systems. When the LEOFF system was established, the employee obligation to contribute to the system ceased. The City then became liable for all funding of the system. The most recent actuarial study, which was performed by City staff as of January 1, 2014, determined that the FPP is actuarially sound. As of January 2014, current assets at a market value of \$611,800, along with future revenues, are sufficient to pay current and future benefits of an actuarial present value of \$539,000. No deficiency is projected and no change to funding of this program was recommended. As a result, there are no long-term contracts for contributing to the Plan. Future revenue sources include a property tax levy, a portion of the Washington State fire insurance premium tax and other resources of the City may determine appropriate for funding the system. A schedule of funding progress can be found in the required supplementary information section following the notes to the financial statements.

The Firemen’s Pension Board has not agreed to fund future actuarial studies as required by GASB 25 due to the limited number of plan members participating in the FPP. The most recent actuarial calculation was prepared in 2013 by the City Finance Department using the Entry Age actuarial cost method.

NOTE 8 — RISK MANAGEMENT

The City of Port Angeles 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 142 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 a deductible for most members. However, the City of Port Angeles is one of about six to eight Cities with a large (\$100,000) deductible. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

The City also purchases other insurance through WCIA, including property, automobile physical damage, fidelity, inland marine, and boiler and machinery. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for claims investigations and legal.

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 training, loss adjustment, pre-defense review, and administrative expenses. As outlined in the interlocal agreement, 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 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.

All funds of the City participate in the self-insurance programs. Each fund makes payments to the self-insurance fund based on an estimate of the amount needed to fund the costs associated with WCIA insurances, purchase re-insurance and related risk management costs, prior and current year claims paid in the current year, and to maintain adequate reserves for catastrophic losses in a given year.

As of December 31, 2013, the self-insurance fund had cash and cash reserves of \$1,203,965. Reported claims liabilities are based on the requirements of GASB Statement 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statement indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of loss can be reasonably estimated. The City of Port Angeles did not change or reduce insurance coverage from 2012 to 2013. The City did not exceed insurance coverage or have any claims beyond its deductible in 2013, carrying \$30,000 risk of loss from 2012 to 2013.

Liability is calculated on unpaid claims carried from the current year to the next year based on actuarial reserves provided by WCIA claims reports. This is then compared to claims received in January of the following year to verify the amount is reasonable.

The City self-insures its workers' compensation liability and buys excess insurance to cover possible large losses. The self-insured retention is \$500,000 per occurrence for 2013.

The City is self-insured for workers' compensation and administers the program through a third-party administrator. The City meets all of the State requirements for funding, including setting aside \$125,000 in reserves, and is periodically audited by the State Department of Labor and Industries for compliance.

All City insurance programs are managed by the Human Resources Office. The City also uses professional consultants on occasion for advice in financial aspects, legal matters and claims administration.

Employee health benefits are purchased through insured plans; i.e. medical, dental, vision, prescription drugs, employee assistance plan services, life insurance and long-term disability coverage.

For all insurance groups and coverage, the City did not exceed its settlement coverage in any of the last three years.

NOTE 9 – SHORT-TERM DEBT

Short term debt that could be recognized by the City is included in payables which are disclosed in Note 13. The current portion of long-term debt is disclosed in Note 10.

NOTE 10 — LONG-TERM DEBT AND LEASES

A. LONG TERM DEBT

The City issues general obligation and revenue bonds to finance the acquisition and construction of major capital facilities. Bonded indebtedness has also been entered into in prior years to advance refund general obligation and revenue bonds. General obligation bonds have been issued for general government activities and are being repaid from the applicable resources (property taxes). General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. Revenue bonds are being repaid by proprietary fund revenues.

The City acquired low-interest loans from the State Departments of Ecology and Commerce for approved public works projects. All of the loans are obligations of the Water and Wastewater Fund with the exception of the Marine Drive, Peabody Culvert and Eighth Street Reconstruction loans which are payable from the Real Estate Excise Tax Funds. The City is in compliance with federal arbitrage regulations.

1. Governmental Activities

Under RCW 39.36.020(2), the public may vote to approve bond issues for general government in an amount not to exceed 2.5% of the assessed valuation. Within the 2.5% limit, the City Council may approve bond issues not to exceed 1.5% of the City's assessed valuation. The City's debt capacity for general purposes at the 2.5% limit is \$37.98 million. The City's remaining debt capacity for general purposes within the 2.5% limit was over \$37.2 million, or 2.4% as of December 31, 2013, (based on 2013 assessed value payable in 2014).

Under RCW 39.36.030(4), the public may also vote to approve park facilities and utility bond issues, each of which is also limited to 2.5% of the City's assessed valuation. A total of 7.5% of the City's assessed valuation may be issued in bonds. All voted bonds require a 60% majority approval. To validate the election, the total votes cast must equal at least 40% of the total votes cast in the last general election.

As of December 31, 2013, the amount available in debt service funds to pay principal and interest on general bonded debt was \$687,130. Outstanding long-term debt for governmental activities included: general obligation bonds - \$3,976,554, public works trust fund loans - \$562,988, for a total of \$4,539,542. The original amount of general obligation bonds issued in prior years was \$6,775,000.

Debt service for voted bond issues is funded with special property tax levies. Debt service for councilmanic bond issues is funded through property taxes and by interfund transfers. The general obligation bonds have various interest rates between 3.0% and 6.50% with maturity dates to 2025.

2. Business-Type Activities

As of December 31, 2013, outstanding long-term debt for business-type activities included: revenue bonds - \$23,126,416, public works trust fund loans - \$22,514,939 and Solid Waste contracts - \$6,701,983, for a total of \$52,343,337. The City has pledged income derived from capital assets of its enterprise funds to pay debt service on the revenue bonds and loans. For revenue bonds, the bonds are reported as current and long term (or non-current) liabilities without adjustment for premium or discount in the Electric, Water and Wastewater funds. The City capitalizes interest incurred during acquisition.

The City drew on three Public Works Trust Fund loans, adding \$12,968,750 to the outstanding balance. In 2013, the City refunded its 2003 Water and Wastewater Refunding Bonds of \$3,345,000. The 2013 Water and Wastewater Refunding Bonds will mature in 2028, with interest rates at 4.0%. This advance refunding was undertaken to reduce total debt service payment over the next 15 years and resulted in an economic gain of \$347,913 based on net present value savings. Also included in the refunding, were 1997 and 1998 Drinking Water Revolving Fund Loans for an aggregate principal amount of \$325,263. The total net present value savings for all three issues is \$373,358.

Restricted assets in the City's enterprise funds amounted to \$1,332,736 in reserves as required by bond indentures. The amounts are as follows: Electric - \$507,003, Water - \$101,017, Wastewater - \$718,321, and Stormwater - \$6,305. Under Chapter 39.46.150 RCW, revenue bonds are supplementary to municipal debt limits.

The City insures seven of its bonds with four different insurers which are rated by Moody's Investors Service and were Aaa at the time of issue. Moody's ratings for the bond insurance sector have been stabilized since 2011, except for the withdrawal of the rating for Syncora Guarantee Inc., which insures three of the City's outstanding bonds.

City of Port Angeles, Washington

BOND/LOAN TYPES	ISSUED/ MATURITY DATE	INTEREST RATE	AMOUNT AUTHORIZED	ORIGINAL ISSUE	REDEEMED THROUGH 12/31/2012	REDEEMED 2013	OUTSTANDING 12/31/2013
GOVERNMENTAL ACTIVITIES LONG-TERM DEBT							
<u>GENERAL OBLIGATION BONDS</u>							
UNLIMITED TAX GENERAL OBLIGATION BONDS (UTGO)							
Library Refunding	2005/2015	3.00-4.00%		2,345,000	1,555,000	255,000	535,000
Sub-total voter approved GO bonds				2,345,000	1,555,000	255,000	535,000
LIMITED TAX GENERAL OBLIGATION BONDS (LTGO)							
Western Urban Growth Area	2005/2025	3.00-4.50%		3,230,000	765,000	145,000	2,320,000
Multi-Modal Property	2006/2021	6.50%		1,200,000	65,111	13,335	1,121,554
Sub-total (LTGO) bonds				4,430,000	830,111	158,335	3,441,554
TOTAL GENERAL OBLIGATION BONDS				6,775,000	2,385,111	413,335	3,976,554
<u>PUBLIC WORKS TRUST FUND LOANS</u>							
Eighth Street Reconstruction	2000/2020	1.00%	1,738,800	1,539,200	895,785	80,427	562,988
TOTAL PUBLIC WORKS TRUST FUND LOANS				1,539,200	895,785	80,427	562,988
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM DEBT				\$ 8,314,200	\$ 3,280,896	\$ 493,762	\$ 4,539,542

City of Port Angeles, Washington

BOND/LOAN TYPES	ISSUED/MATURITY DATE	INTEREST RATE	AMOUNT AUTHORIZED	ORIGINAL ISSUE	REDEEMED THROUGH 12/31/2012	REDEEMED 2013	OUTSTANDING 12/31/2013
BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT							
ENTERPRISE FUNDS:							
REVENUE BONDS							
ELECTRIC FUND:							
Revenue and Refunding	2005/2025	3.00-4.30%		3,185,000	940,000	140,000	2,105,000
Revenue	2010/2035	3.00-4.50%		4,925,000	130,000	135,000	4,660,000
Refunding	2011/2022	3.50%		1,662,056	124,584	131,056	1,406,416
Sub-total Electric Fund				9,772,056	1,194,584	406,056	8,171,416
WATER/WASTEWATER/STORMWATER FUNDS:*							
Revenue	2003/2028	2.00-5.00%		4,220,000	1,085,000	3,135,000	-
Refunding	2009/2024	3.00-4.50%		7,590,000	1,275,000	400,000	5,915,000
Revenue	2010/2034	4.00-4.25%		5,695,000	-	-	5,695,000
Refunding	2013/2028	4.00%		3,345,000	-	-	3,345,000
Sub-total Water/Wastewater Funds				20,850,000	2,360,000	3,535,000	14,955,000
TOTAL REVENUE BONDS				30,622,056	3,554,584	3,941,056	23,126,416
PUBLIC WORKS TRUST FUND LOANS							
WATER FUND:							
Sidewalk Watermain Reconstruction	1994/2014	1.00%	750,000	750,000	642,857	53,571	53,571
Downtown Sidewalk and Watermain Reconstruction	1995/2015	1.00%	240,000	240,000	200,080	13,307	26,613
Drinking Water Reservoir Covers (SRF)	1997/2018	5.00%	463,500	463,500	305,904	157,596	-
Downtown Watermain/Sidewalk Reconstruction (SRF)	1998/2019	3.35%	1,030,000	1,030,000	650,526	379,475	-
Drinking Water Reservoir Covers and Disinfection System	2000/2020	1.00%	1,168,300	1,168,300	667,161	62,642	438,497
Downtown Watermain Replacement Phase III	2004/2024	0.50%	2,200,000	2,200,000	679,752	126,687	1,393,560
Sub-total Water Fund				5,851,800	3,146,280	793,278	1,912,241
WASTEWATER FUND:							
Francis Street Storm Sewer Reconstruction	1993/2013	2.00%	760,000	760,000	718,111	41,889	-
Francis Street Sewer Main (Pre-construction)	2006/2026	0.50%	590,000	590,000	155,263	31,053	403,684
Francis Street Sewer Main (Construction)	2007/2027	0.50%	1,875,000	1,781,250	78,947	113,487	1,588,816
CSO Phase I (Construction)	2008/2028	0.50%	10,000,000	9,500,000	315,789	574,013	8,610,197
CSO Phase I (Construction)	2013/2034	2.60%	10,000,000	10,000,000	-	-	10,000,000
Sub-total Wastewater Fund				22,631,250	1,268,110	760,442	20,602,697
TOTAL PUBLIC WORKS TRUST FUND LOANS				28,483,050	4,414,390	1,553,720	22,514,938
SOLID WASTE CONTRACTS							
Transfer Station Facility	2006/2026	6.00%	8,398,678	8,398,678	1,649,167	325,945	6,423,566
Moderate Risk Waste Facility	2006/2026	6.00%	364,025	364,025	71,481	14,127	278,417
TOTAL SOLID WASTE CONTRACTS				8,762,703	1,720,648	340,072	6,701,983
TOTAL BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT				67,867,809	9,689,622	5,834,847	52,343,337
GRAND TOTAL LONG-TERM DEBT				\$ 76,182,009	\$ 12,970,518	\$ 6,328,611	\$ 56,882,879

*Revenues from the Electric, Water, Wastewater and Stormwater Funds are pledged for debt service payments on revenue bonds.

Year Ending 12/31	GOVERNMENTAL ACTIVITIES DEBT SERVICE REQUIREMENTS TO MATURITY												
	General Obligation Bonds								Public Works Trust Fund Loans		Governmental Activities		
	2005 UTGO Refunding		2005 LTGO (WUGA)		2006 LTGO (Multi-Modal)		Totals - GO Bonds		8th Street Reconstruction		Totals - All Debt		
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2014	260,000	21,400	155,000	97,465	14,216	72,674	429,216	191,539	80,427	5,630	509,643	197,169	
2015	275,000	11,000	160,000	91,265	15,155	71,735	450,155	174,000	80,427	4,826	530,582	178,826	
2016	-	-	165,000	84,865	16,156	70,734	181,156	155,599	80,427	4,021	261,583	159,620	
2017	-	-	175,000	77,440	17,224	69,666	192,224	147,106	80,427	3,217	272,651	150,323	
2018	-	-	180,000	70,528	18,361	68,529	198,361	139,057	80,427	2,413	278,788	141,470	
2019-2023	-	-	1,015,000	235,426	1,040,442	165,838	2,055,442	401,264	160,854	2,413	2,216,296	403,677	
2024-2025	-	-	470,000	31,125	-	-	470,000	31,125	-	-	470,000	31,125	
Total	\$ 535,000	\$ 32,400	\$ 2,320,000	\$ 688,114	\$ 1,121,554	\$ 519,175	\$ 3,976,554	\$ 1,239,689	\$ 562,988	\$ 22,520	\$ 4,539,542	\$ 1,262,209	

Table 1 of 1

City of Port Angeles, Washington

Year Ending 12/31	BUSINESS-TYPE ACTIVITIES DEBT SERVICE REQUIREMENTS TO MATURITY													
	Revenue Bonds													
	2011 Electric Refunding		2005 Electric Revenue/Refunding		2010 Electric Revenue		2009 Water/Wastewater		2010 Water/Wastewater		2013 Water/Wastewater		Totals - Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	135,643	49,225	145,000	84,783	140,000	195,343	450,000	241,900	-	234,188	220,000	145,322	1,090,643	950,759
2015	140,391	44,477	155,000	78,983	140,000	190,443	465,000	223,900	-	234,188	235,000	125,000	1,135,391	896,989
2016	145,304	39,563	155,000	73,170	145,000	185,543	480,000	205,300	-	234,188	240,000	115,600	1,165,304	853,362
2017	150,390	34,478	165,000	67,358	150,000	181,193	500,000	186,100	-	234,188	240,000	106,000	1,205,390	809,315
2018	155,654	29,214	170,000	61,088	155,000	175,193	520,000	166,100	-	234,188	250,000	96,400	1,250,654	762,182
2019-2023	679,034	60,437	950,000	197,855	885,000	775,308	2,875,000	479,300	-	1,170,938	1,010,000	349,600	6,399,034	3,033,434
2024-2028	-	-	365,000	22,038	1,085,000	575,975	625,000	25,000	2,010,000	1,054,338	1,150,000	141,600	5,235,000	1,818,951
2029-2033	-	-	-	-	1,335,000	324,138	-	-	3,005,000	533,575	-	-	4,340,000	857,713
2034-2035	-	-	-	-	625,000	42,525	-	-	680,000	28,900	-	-	1,305,000	71,425
	\$ 1,406,416	\$ 257,394	\$ 2,105,000	\$ 585,275	\$ 4,660,000	\$ 2,645,658	\$ 5,915,000	\$ 1,527,600	\$ 5,695,000	\$ 3,958,688	\$ 3,345,000	\$ 1,079,522	\$ 23,126,416	\$ 10,054,129

Year Ending 12/31	BUSINESS-TYPE ACTIVITIES DEBT SERVICE REQUIREMENTS TO MATURITY									
	Water Public Works Trust Fund Loans									
	Sidewalk Watermain Reconst		DnTn Sidewalk & Wtrm Recon		Drink Wtr Res Cov/Disinfect		DnTn Watermain Repl Phase III		Totals - Water PWTFLoans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	53,572	536	13,307	266	62,642	4,385	126,687	6,968	256,208	12,155
2015	-	-	13,307	133	62,642	3,759	126,687	6,334	202,636	10,226
2016	-	-	-	-	62,642	3,132	126,687	5,701	189,329	8,833
2017	-	-	-	-	62,642	2,506	126,687	5,067	189,329	7,573
2018	-	-	-	-	62,642	1,879	126,687	4,434	189,329	6,313
2019-2023	-	-	-	-	125,284	1,879	633,437	12,669	758,721	14,548
2024	-	-	-	-	-	-	126,687	633	126,687	633
	\$ 53,571	\$ 536	\$ 26,612	\$ 399	\$ 438,498	\$ 17,540	\$ 1,393,560	\$ 41,807	\$ 1,912,241	\$ 60,282

Table 2 of 4

Year Ending 12/31	BUSINESS-TYPE ACTIVITIES DEBT SERVICE REQUIREMENTS TO MATURITY									
	Wastewater Public Works Trust Fund Loans									
	Francis St. Sewer Main		Francis St. Sewer Main		CSO Phase I		CSO Phase I - Construction		Total - Wastewater PWTFLoans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	31,053	2,018	113,487	7,944	-	-	574,013	43,051	718,553	53,013
2015	31,053	1,863	113,487	7,377	275,275	391,062	574,013	40,181	993,827	440,483
2016	31,053	1,708	113,487	6,809	414,814	251,523	574,013	37,311	1,133,366	297,351
2017	31,053	1,553	113,487	6,242	425,728	240,608	574,013	34,441	1,144,281	282,844
2018	31,053	1,397	113,487	5,674	436,930	229,407	574,013	31,571	1,155,483	268,049
2019-2023	155,263	4,658	567,434	19,860	2,363,270	968,414	2,870,066	114,803	5,956,033	1,107,735
2024-2028	93,158	932	453,947	5,674	2,690,980	640,704	2,870,066	43,051	6,108,151	690,361
2029-2033	-	-	-	-	3,064,133	267,551	-	-	3,064,133	267,551
2034-2035	-	-	-	-	328,870	4,299	-	-	328,870	4,299
	\$ 403,684	\$ 14,129	\$ 1,588,816	\$ 59,581	\$ 10,000,000	\$ 2,993,568	\$ 8,610,197	\$ 344,408	\$ 20,602,698	\$ 3,411,685

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City of Port Angeles, Washington

Year Ending 12/31	BUSINESS-TYPE ACTIVITIES							
	DEBT SERVICE REQUIREMENTS TO MATURITY							
	SOLID WASTE TRANSFER STATION CONTRACTS PAYABLE							
	Transfer Station Facility		Moderate Risk Waste Facility		Totals - SW Contracts		Totals-Business Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	346,048	376,000	14,999	16,297	361,047	392,297	2,244,427	1,408,779
2015	367,392	354,657	15,924	15,372	383,316	370,029	2,247,873	1,339,839
2016	390,052	331,997	16,906	14,390	406,958	346,387	2,288,120	1,268,793
2017	414,109	307,940	17,949	13,347	432,058	321,287	2,358,307	1,196,002
2018	439,651	282,398	19,056	12,240	458,707	294,638	2,430,219	1,118,054
2019-2023	2,640,040	970,204	114,427	42,052	2,754,467	1,012,256	12,586,696	4,276,306
2024-2028	1,826,274	159,361	79,156	6,907	1,905,430	166,268	9,868,038	2,072,878
2029-2033	-	-	-	-	-	-	4,340,000	857,713
2034-2035	-	-	-	-	-	-	1,305,000	71,425
	\$ 6,423,566	\$ 2,782,557	\$ 278,417	\$ 120,605	\$ 6,701,983	\$ 2,903,162	\$ 39,668,681	\$ 13,609,783

Table 4 of 4

Year Ending 12/31	Governmental Activities Debt Service Requirements To Maturity					
	General Obligation		Public Works		Total	
	Bonds		Trust Fund Loans			
	Principal	Interest	Principal	Interest	Principal	Interest
2014	429,216	191,539	80,427	5,630	509,643	197,169
2015	450,155	174,000	80,427	4,826	530,582	178,826
2016	181,156	155,599	80,427	4,021	261,583	159,620
2017	192,224	147,106	80,427	3,217	272,651	150,323
2018	198,361	139,057	80,427	2,413	278,788	141,470
2019-2023	2,055,442	401,264	160,853	2,413	2,216,295	403,677
2024-2025	470,000	31,125	-	-	470,000	31,125
Total	3,976,554	1,239,689	562,988	22,520	4,539,542	1,262,209

Year Ending 12/31	Business-Type Activities Debt Service Requirements To Maturity							
	Revenue		Public Works		Solid Waste Transfer Station		Total	
	Bonds		Trust Fund Loans		Contracts Payable			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	1,090,643	950,759	974,761	65,168	361,047	392,297	2,426,451	1,408,225
2015	1,135,391	896,989	1,196,464	450,709	383,316	370,029	2,715,170	1,717,727
2016	1,165,304	853,363	1,322,696	306,184	406,958	346,387	2,894,958	1,505,934
2017	1,205,390	809,315	1,333,610	290,417	432,058	321,287	2,971,058	1,421,019
2018	1,250,654	762,182	1,344,812	274,362	458,707	294,638	3,054,173	1,331,182
2019-2023	6,399,034	3,033,434	6,714,755	1,122,283	2,754,467	1,012,256	15,868,256	5,167,973
2024-2028	5,235,000	1,818,951	6,234,838	690,994	1,905,430	166,264	13,375,268	2,676,209
2029-2033	4,340,000	857,713	3,064,133	267,551	-	-	7,404,133	1,125,263
2034-2035	1,305,000	71,425	328,870	4,299	-	-	1,633,870	75,724
Total	23,126,416	10,054,130	22,514,939	3,471,967	6,701,983	2,903,158	52,343,337	16,429,255

City of Port Angeles, Washington

B. CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Balance at 1/1/2013	Additions	Reductions	Balance at 12/31/2013	Current Amount Due
GOVERNMENTAL ACTIVITIES:					
Bonds Payable:					
General Obligation Bonds	\$ 4,389,889	\$ -	\$ 413,335	\$ 3,976,554	\$ 429,216
Public Works Trust Fund Loans	643,415	-	80,427	562,988	80,427
Total Bonds/Loans Payable	5,033,304	-	493,762	4,539,542	509,643
Other post-employment benefits payable	2,688,368	377,603	-	3,065,971	-
Compensated Absences	1,626,685	58,487	47,540	1,637,632	638,974
Governmental activities long-term liabilities:	\$ 9,348,356	\$ 436,090	\$ 541,302	\$ 9,243,145	\$ 1,148,617
BUSINESS-TYPE ACTIVITIES:					
Bonds Payable:					
Revenue Bonds	23,722,472	3,345,000	3,941,056	23,126,416	1,090,643
Public Works Trust Fund Loans	11,099,910	12,968,750	1,553,719	22,514,941	974,760
Total Bonds/Loans Payable	34,822,382	16,313,750	5,494,775	45,641,357	2,065,403
Solid Waste Contracts Payable:					
Transfer Station	6,749,511	-	325,945	6,423,566	346,048
Moderate Risk Waste Facility	292,544	-	14,127	278,417	14,999
Total Solid Waste Contracts Payable	7,042,055	-	340,072	6,701,983	361,047
Compensated Absences	631,350	105,355	179,948	556,756	254,529
Landfill Closure Costs Payable:					
Post-Closure Costs	3,553,994	-	43,282	3,510,712	-
Business-Type activities long-term liabilities:	\$ 46,049,781	\$ 16,419,105	\$ 6,058,077	\$ 56,410,805	\$ 2,680,979

Long-term liabilities for Internal Service Funds are included as part of the above total for governmental activities. At year end, \$49,424 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments, other post-employment benefits, and compensated absences are generally liquidated by the general fund.

C. REFUNDED DEBT

In prior years the City defeased certain general obligation and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the City's financial statements. At December 31, 2013, \$560,000 of general obligation bonds, \$4,535,000 of electric, and \$12,110,000 of water/wastewater revenue bonds outstanding are considered defeased.

Please see Changes in Long-Term Liabilities, Business-Type Activity for refunded debt in 2013.

D. LEASES

1. Operating Leases

The City leases various pieces of equipment from Waste Connections, Inc. for use at the transfer station under a non-cancelable operating lease. The \$749,169 lease commenced in 2007 and expires in 2026. Upon expiration of the term of the lease, the City has the option to purchase from or return the equipment to the lessor. For the year ended December 31, 2013, total costs for the lease were \$64,408. The future minimum lease payments including 6% interest are as shown:

Year Ending December 31	Amount
2014	64,408
2015	64,407
2016	64,407
2017	64,407
2018	64,407
2019-2023	322,035
2024-2026	<u>177,121</u>
Total	<u>\$ 821,192</u>

E. ARBITRAGE

Arbitrage is the reinvestment of the proceeds of tax-exempt securities in materially higher yielding taxable securities. Interest earnings in excess of interest expense must be rebated to the federal government. The City reviewed the applicability of arbitrage rebate regulations on its outstanding tax-exempt bonds and is in compliance with those regulations.

NOTE 11 — CONTINGENCIES AND LITIGATIONS

The City of Port Angeles has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City’s self-insurance reserves are adequate to pay all known or pending claims.

The City is liable for repayment of refunded debt. Refunded debt is discussed in Note 10.

The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Other than the instances described above, City management believes that such disallowances, if any, will be immaterial.

NOTE 12 – INTERFUND TRANSACTIONS

A. INTERFUND BALANCES

Interfund transactions are classified as follows:

1. Services Provided – Transactions that would be treated as revenues, expenditures or expenses if they involve external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.
2. Transfers – Transactions to support the operations of other funds are recorded as “Transfers” and classified with “Other Financing Sources or Uses” in the fund statements. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Transfers of remaining balances when funds are closed are classified as transfers.

3. Loans/Advances – Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds in the fund statements. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity. Loans and advances are subject to elimination upon consolidation.
4. Interfund Balances (Due to/from other funds) - The outstanding balances between funds result from the time lag between when goods and services are provided and when transactions are recorded in the accounting system and to meet short-term cash flow needs.

There were no interfund balances as of December 31, 2013.

B. INTERFUND TRANSFERS

Interfund transfers include financial outflows to other funds without equivalent flows of assets in return, or without a requirement for repayment. Interfund transfers are the method by which tax monies are disbursed for operations of specific activities within the city.

Transfers from the General Fund equaled \$1,547,550, including:

- \$772,000 to the Street Special Revenue Fund to support operating activities.
- \$45,000 to Debt Service Funds for payment of governmental debt.
- \$220,300 to Capital Improvement Funds for capital projects
 - o \$18,000 for street paving at the Waterfront Development
 - o \$77,300 for Police Department camera projects
 - o \$25,000 for NICE neighborhood improvement program
 - o \$100,000 for Lauridsen Bridge project
- \$456,500 to Enterprise Funds
 - o \$435,500 to support Medic I operations
 - o \$21,000 to support mobile wireless project
- \$24,750 to Esther Webster Trust Fund to support operations at the Fine Arts Center.
- \$29,000 to Internal Service Funds to support vehicle purchase.

Transfers from the Special Revenue Funds equaled \$2,767,350, including:

- \$62,000 to the General Fund
 - o \$62,000 from the Lodging Tax Fund for recreational activities and sports field maintenance.
- \$2,591,550 to the Capital Improvement Fund
 - o \$2,379,550 for waterfront development
 - o \$40,000 for PenCom generator project
 - o \$47,000 for PenCom HVAC / Halon project
 - o \$125,000 for Lauridsen Bridge project
- \$38,800 to Enterprise Funds
 - o \$38,800 to Water Fund for debt service on Laurel Street sidewalk project
 - \$20,400 from Lodging Tax Fund
 - \$18,400 from Real Estate Excise Tax Fund #1
- \$61,000 from Streets to Equipment Services for the purchase of a crack sealer machine.
- \$14,000 from Lodging Tax to Fine Arts Center Permanent Fund for operations

Transfers from Internal Service Funds equaled \$112,259 for the closure of the Archaeologist Fund to the General Fund.

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Transfers from Debt Service Funds equaled \$5,515 for closure of the 2001 G.O. Refunding Bond Fund to the 2005 G.O. Refunding Bond Fund.

Transfers from Enterprise Funds equaled \$14,943,444, including:

- \$59,200 to the General Fund to support return on investment
- \$470,000 to Special Revenue Funds
 - o \$150,000 to Street Fund for street sweeping related to storm drain clean-up
 - o \$120,000 to Economic Development Fund for program support
 - \$60,000 from Electric Fund
 - \$30,000 from Water Fund
 - \$30,000 from Wastewater Fund
 - o \$200,000 to Economic Development Fund to return initial investment for Harbor Study
- \$203,600 to 2005 LTGO Debt Service Fund for debt service
 - o \$23,100 from Electric Fund
 - o \$126,300 from Water Fund
 - o \$54,200 from Wastewater Fund
- \$306,600 to Capital Projects Funds
 - o \$75,000 to Capital Improvement Fund for the NICE Program
 - \$25,000 each from Electric, Water and Wastewater Funds
 - o \$106,600 to Capital Improvement Fund for "C" Street Extension
 - \$82,100 from Water Fund
 - \$24,500 from Stormwater Fund
 - o \$125,000 from Solid Waste Collections to Capital Improvement Fund for alley paving
- \$13,381,805 transferred from one Enterprise Fund to another
 - o \$550,000 from Electric to Conservation Fund for Tier 2 conservation program
 - o \$7,715,711 from Water Treatment Plant Fund to Water to close the Water Treatment Plant Fund
 - o \$3,989,924 from Solid Waste Transfer Station to Solid Waste Collections to close the Solid Waste Transfer Fund
 - o \$1,648,409 from Solid Waste Collections to Solid Waste Transfer Station for Solid Waste Transfer Station closure.

Interfund transfers as of December 31, 2013 were as follows:

NOTE 13 - RECEIVABLE AND PAYABLE BALANCES

A. RECEIVABLES

Receivables at December 31, 2013, were as follows:

	Transfer From							Total
	General Fund	Special Revenue	Debt Service	Capital Funds	Enterprise Funds	Internal Service	Permanent Funds	
General Fund	\$ -	\$ 62,000	\$ -	\$ -	\$ 59,200	\$ 112,259	\$ -	\$ 233,459
Special Revenue	772,000	-	-	-	470,000	-	-	1,242,000
Debt Service	45,000	-	5,515	-	203,600	-	-	254,115
Capital Funds	220,300	2,591,550	-	-	306,600	-	-	3,118,450
Enterprise Funds	456,500	38,800	-	-	13,904,044	-	-	14,399,344
Internal Service	29,000	61,000	-	-	-	-	-	90,000
Permanent	24,750	14,000	-	-	-	-	-	38,750
Total	\$ 1,547,550	\$ 2,767,350	\$ 5,515	\$ -	\$ 14,943,444	\$ 112,259	\$ -	\$ 19,376,118

City of Port Angeles, Washington

Governmental Activities				Due From	Due From			Total
	Accounts	Taxes	Interest	Other Governments	Other Funds	Other		
General Fund	\$ 19,686	\$ 159,920	\$ 28,513	\$ 131,147	\$ -	\$ -		\$ 339,266
Special Revenue Funds	1,866	8,242	8,335	429,288	-	831,013		1,278,744
Capital Project Funds	-	-	592	662,977	-	-		663,569
Debt Service Funds	-	2,193	2,716	-	-	-		4,909
Internal Service Funds	11,723	-	20,704	30,473	-	-		62,900
Permanent Funds	-	-	986	-	-	-		986
Total Governmental Activities	\$ 33,275	\$ 170,355	\$ 61,846	\$ 1,253,885	\$ -	\$ 831,013		\$ 2,350,374
Reconcile to Government-Wide Statements								
Taxes Receivable	-	2,461	-	-	-	-		2,461
	<u>\$ 33,275</u>	<u>\$ 172,816</u>	<u>\$ 61,846</u>	<u>\$ 1,253,885</u>	<u>\$ -</u>	<u>\$ 831,013</u>		<u>\$ 2,352,835</u>

Business Type Activities				Due From	Due From			Total
	Accounts	Assessments	Interest	Other Governments	Other Funds	Other		
Electric	\$ 4,958,487	\$ -	\$ 33,353	\$ 70,680	\$ -	\$ -		\$ 5,062,520
Conservation	116,950	-	2,706	76,960	-	-		196,616
Water	834,298	-	39,905	61,526	-	-		935,729
Water Treatment Plant	-	-	-	-	-	-		-
Wastewater	1,333,377	-	43,500	2,158,661	-	-		3,535,538
Solid Waste Collection	870,274	-	19,157	575,221	-	-		1,464,652
Solid Waste Transfer Station	-	-	-	-	-	-		-
Stormwater	5,090	-	3,332	47,167	-	-		55,589
Medic 1	195,342	-	536	-	-	-		195,878
Total Business Type Activities	\$ 8,313,818	\$ -	\$ 142,489	\$ 2,990,215	\$ -	\$ -		\$ 11,446,522

B. PAYABLES

Payables at December 31, 2013, were as follows:

Governmental Activities	Salaries and Benefits		Deferred Revenue	Due to Other Governments	Due to Other Funds	Other	Total
	Accounts	Benefits					
General Fund	\$ 282,332	\$ 400,814	\$ 134,903	\$ (9,952)	\$ -	\$ 83,126	\$ 891,223
Special Revenue Funds	36,538	94,506	831,013	-	-	43	962,100
Capital Project Funds	-	1,063,495	-	-	-	280,609	1,344,104
Debt Service Funds	300	-	883	-	-	-	1,183
Internal Service Funds	104,986	17,086	-	14,939	-	906,689	1,043,700
Permanent Funds	1,019	2,279	-	-	-	-	3,298
Total Governmental Activities	\$ 425,175	\$ 1,578,180	\$ 966,799	\$ 4,987	\$ -	\$ 1,270,467	\$ 4,245,608
Reconcile to Government-Wide Statements							
Due within one year- capital debt	-	-	-	-	-	509,646	509,646
Due in more than one year OPEB	-	-	-	-	-	3,065,971	3,065,971
Compensated Absences	-	-	-	-	-	1,588,208	1,588,208
Due in more than one year -capital debt	-	-	-	-	-	4,029,899	4,029,899
	<u>\$ 425,175</u>	<u>\$ 1,578,180</u>	<u>\$ 966,799</u>	<u>\$ 4,987</u>	<u>\$ -</u>	<u>\$ 10,464,191</u>	<u>\$ 13,439,332</u>

Business Type Activities	Salaries and Benefits		Long-Term Debt Current	Due to Other Governments	Due to Other Funds	Other	Total
	Accounts	Benefits					
Electric	\$ 2,505,948	\$ 88,679	\$ 420,643	\$ 11	\$ 5,358	\$ 1,140,048	\$ 4,160,687
Conservation	45,354	7,344	-	-	-	-	52,698
Water	45,983	33,071	658,608	9	1,629	343,436	1,082,736
Wastewater	2,626,151	33,680	1,060,541	3	860	361,444	4,082,679
Solid Waste Collection	716,064	26,718	361,047	-	1,165	126,414	1,231,408
Solid Waste Transfer Station	-	-	-	-	-	-	-
Stormwater	7,257	-	-	8	20	6,556	13,841
Medic 1	8,847	38,957	-	-	-	12,062	59,866
Total Business Type Activities	\$ 5,955,604	\$ 228,449	\$ 2,500,839	\$ 31	\$ 9,032	\$ 1,989,960	\$ 10,683,916

NOTE 14 — JOINT VENTURES

Joint Venture with Peninsula Communications Center (PenCom)

The Peninsula Communications Center (PenCom), an emergency dispatch operation, was established August 21, 1990 when a service agreement was entered into by the City of Port Angeles and the various other governmental entities.

Participant	Service Agreement Signature Date
City of Forks*	10/1/2008
City of Sequim	2/18/1992
Clallam County	8/14/1990
Clallam County Rural Fire Protection District #1	1/1/2009
Clallam County Rural Fire Protection District #2	8/14/1990
Clallam County Rural Fire Protection District #3	2/18/1992
Clallam County Rural Fire Protection District #4	8/14/1990
Clallam County Rural Fire Protection District #5	8/14/1990
Clallam County Rural Fire Protection District #6	1/1/2009
Elwha Tribal Police	8/14/1990
Forks Ambulance	1/1/2009
Jamestown S'Klallam Fish and Game	1/1/2007
Olympic National Park	8/14/1990
Quileute Tribal Police	4/1/2004

*Pencom provided limited service to the City of Forks beginning 1/29/2008, but became a full member on the date above.

The agreement is sanctioned by the provisions and terms of the “Interlocal Cooperation Act” pursuant to RCW 39.34. The agreement was renewed effective January 1, 2004, and continues year-to-year. Termination of the agreement is accomplished only by legislative act of their respective governing body, communicated to the City in writing. Such withdrawal becomes effective on December 31 of the year in which notice of withdrawal is received.

PenCom was established to provide for improved consolidated emergency communications (dispatch) services on a 24 hour basis for police, fire, and medical aid to the participating cities, tribes, national park and county.

The allocation of financial participation among the participating entities is based on varying criteria and the formula for determining the shared costs was reviewed and changed effective January 1, 2004. This agreement was updated again in 2010. All expenses incurred by PenCom are paid by the City and shared equitably by the City and all other participating agencies. The shared budget is calculated by subtracting all other revenue sources made available to PenCom with the remainder shared by participants on a percentage of use basis. An adjusted percentage of use for each of the two major dispatch functions (Law Enforcement and Fire/Emergency Medical Services) of PenCom is calculated by multiplying the law enforcement and fire dispatch activity by a factor of 1.0 and the EMS dispatch activity by a factor of 1.5. Fire/EMS agencies are each assessed a percentage of use of the Fire/EMS portion of the budget by determining the total number of Fire/EMS calls-for-service. Law enforcement agencies are assessed a base amount of \$2,000 per sworn officer and those agencies using additional computer records services share the balance of the law enforcement portion of the budget based on percentage of use by determining the total number of law enforcement calls for service.

Other revenue sources are E9-1-1 excise tax revenues collected pursuant to RCW 38.52 by Clallam County for the operation of the enhanced 9-1-1 telephone system and a 0.1% use and excise tax pursuant to RCW 82.14.420. This latter revenue source was approved by Clallam County voters during the 2003 general election to obtain funds for costs associated with financing, designing, acquiring, constructing, equipping, operating, maintaining, remodeling, repairing, re-equipping and improving the enhanced 9-1-1 communication systems and facilities. Collection of this tax began April 1, 2004. Clallam County places 25% of this revenue in a dedicated fund for PenCom capital purchases. The remainder is transferred to PenCom for operational purposes.

PenCom is served by an Advisory Board which is the operations policy recommending body for PenCom. The Board is composed of a representative from each agency using PenCom's services under contract. The Advisory Board has the authority to:

- A. Make recommendations for the operation of PenCom in accordance with industry standards.
- B. Recommend approval of the joining of any other parties eligible to participate.
- C. Recommend services provided to each agency including the use of PenCom's computerized fire or law enforcement records management systems.
- D. Review the financial contribution of the participants and recommend adjustments in the same if the board finds that any of the parties is bearing an inequitable share of PenCom's costs.
- E. Prior to PenCom's budget approval, the communications manager meets, upon request, with the legislative body of any of the participating agencies to review PenCom's budget and discuss the Board's recommendations.

The City of Port Angeles provides the following:

- A. Sufficient staff to operate and maintain PenCom using employees of the City.
- B. Employs and assigns the manager who manages the day-to-day operation of PenCom and is responsible to the City of Port Angeles Chief of Police.
- C. Communications and records services including maintaining a public safety answering point for all telephone calls for emergency assistance, the development and utilization of a computer aided dispatch system, and the performance of other tasks and services necessary and proper for the efficient operation of a comprehensive emergency communications system.
- D. Physical facilities and necessary support for PenCom in City buildings.

Clallam County provides maintenance of the servers for the CAD software, at the cost of \$18,000 per year. The County provides 30 hours per month in personnel time for maintenance and programming in exchange for the City providing the facility and its support for PenCom. Peninsula Communications is the primary public safety answering point for all 9-1-1 calls in Clallam County and for Olympic National Park in Clallam and Jefferson Counties. The Enhanced 9-1-1 system was fully operational on April 10, 1996. Since then, PenCom telephone and computer systems have been upgraded. The core technologies used in the dispatch center include the E911 phone system, 24-hour logging recorder, computed aided dispatching with mapping, and additional equipment using advanced dispatching technologies.

It is the responsibility of the manager to prepare an annual budget which includes all necessary and required expenditures and anticipated revenues. The budget is reviewed by the Advisory Board and, with its recommendation, submitted to the City Council for approval. User agencies make their financial

payments for the cost of operation of PenCom on a quarterly basis. Each user agency is adjusted in the first quarter of each subsequent year to reconcile any overpayment or underpayment by any individual participant for the previous year.

PenCom is accounted for as a Special Revenue fund. The fund balance as of December 31, 2013, was \$697,444. This is sufficient to cover operating costs on an ongoing basis. From 2004 forward, PenCom carries no debt. Additional revenues are generated via a 1/10 of one percent sales tax, providing PenCom with stable funding. Twenty-five percent of revenues are earmarked toward capital improvements. The financial statements for this fund can be obtained from the City of Port Angeles Finance Department, P. O. Box 1150, Port Angeles, WA 98362.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City provides continuation of medical insurance coverage to employees that retire under the State’s Law Enforcement Officer and Fire Fighters’ (LEOFF) Plan 1 as required by Revised Code of Washington (RCW) Chapter 41.26. LEOFF 1 covers all police officers and fire fighters who were hired prior to October 1, 1977, and medical coverage continues for the life of the retiree. The members’ necessary hospital, medical and nursing care expenses not covered by worker’s compensation, social security, insurance provided by another employer, other pension plan, or any other similar source is covered. The local County Disability Board administers the medical provisions of the plan and determines whether medical services are deemed necessary and reasonable costs for those services. Under the requirements of LEOFF 1, the City provides the same benefits to LEOFF 1 employees who retire due to a disability.

The number of participants as of December 31, 2013, the effective date of the OPEB valuation, is 24. All 24 members are inactive as the last active LEOFF 1 member retired from service in mid-2007.

Funding Policy. The City currently funds post-employment healthcare benefits on a pay-as-you-go basis. The City finances the plan by purchasing medical insurance and self-funding vision and medical benefits not covered by the insurance. The expenditures are budgeted in the Police and Fire Department’s annual operating budget. The City reimburses 100% of the amount of validated claims for medical, dental and hospitalization costs incurred by pre-Medicare retirees.

Annual OPEB Cost and Net OPEB Obligation. The city’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years as of January 1, 2013.

Actuarial Methods and Assumptions. We have used the alternative measurement method permitted under GASB Statement No. 45. Actual retirement ages are used for the City’s 24 LEOFF members who benefit for the purpose of determining the AAL and normal cost. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the September 20, 2006, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The

City of Port Angeles, Washington

actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The assumptions used in the Milliman study are as follows:

Medical Inflation Trend			Annual Medical Cost by Age			Aging Factors	
Year	Medical	Long-Term Care	Age	Non-Medicare	Medicare	Age	Aging Factor
2007	9.0%	4.5%	47	\$ 5,902	N/A	0-64	6.0%
2008	8.5%	4.5%	52	\$ 7,898	N/A	65-71	2.5%
2009	8.0%	4.5%	57	\$ 10,569	N/A	72-76	1.2%
2010	7.5%	4.5%	62	\$ 14,144	N/A	77+	0.5%
2011	7.0%	4.5%	67	N/A	\$ 6,526		
2012	6.5%	4.5%	72	N/A	\$ 7,290		
2013	6.0%	4.5%	77	N/A	\$ 7,685		
2014	5.5%	4.5%	82	N/A	\$ 7,879		
2015+	5.0%	4.5%	87	N/A	\$ 8,078		

The Alternative Actuarial Calculation Method for LEOFF 1 employees is based on input online, using the State of Washington’s GASB 45 tool. For the calculations, the City provides the number of active, inactive, gender by age, percentage of gender by age, the annual budget amount for the City, and percentage budget growth rate. The City can change the medical growth percentage based on internal data for payments made. Because the plan is closed with no new members, the amount of liability is expected to decrease until there are no surviving members.

The following shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation. The Net OPEB Obligation of \$2,688,369 is included as a long-term liability on the Statement of Net Assets.

	<u>For period ending</u>		
	12/31/2011	12/31/2012	12/31/2013
1 - Annual Required Contribution (ARC)	\$ 845,236	\$ 595,163	\$ 595,163
Determination of Net OPEB Obligation:			
2 - Annual Required Contribution	845,236	595,163	595,163
3 - Interest on Prior Year OPEB Obligation *	75,300	56,841	67,209
4 - Annual OPEB Cost [2 + 3]	920,536	652,004	662,372
5 - Employer Contributions	320,218	237,294	284,769
6 - Change in Net OPEB Obligation [4 - 5]	600,318	414,710	377,603
7 - Net OPEB Obligation - beginning of year	1,673,339	2,273,658	2,688,368
8 - Net OPEB Obligation - end of year [6 + 7]	\$ 2,273,658	\$ 2,688,368	\$ 3,065,971
* The interest rate is assumed at the following:	4.5%	2.5%	2.5%

City of Port Angeles, Washington

The City’s OPEB costs, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percent of OPEB Cost	Net OPEB Obligation
12/31/2011	920,536	34.8%	\$ 2,273,658
12/31/2012	652,004	36.4%	\$ 2,688,368
12/31/2013	662,372	43.0%	\$ 3,065,971

NOTE 16 — CLOSURE AND POSTCLOSURE CARE COST

The landfill closed December 31, 2006. Ongoing postclosure activity continues. In 2013, it was discovered that the Landfill was sliding into the Straits of Juan deFuca. The Dept. of Ecology determined the City must either reinforce the bluff or move the landfill contents to another cell. The City has chosen to move the contents to an existing cell. This will occur in 2014 and 2015, at the same time the post-closure funding will be re-evaluated.

State and federal laws and regulations require that the City place a final cover on its landfill when closed, and perform certain maintenance functions at the landfill site for thirty years after closure. The City will make annual contributions to finance these postclosure care costs as required. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized in 2013 based on the future postclosure care costs.

The City is in compliance with funding requirements, and at December 31, 2013, cash reserves of \$3,510,712 are being held for postclosure purposes, a decrease of \$43,282. These amounts are reported as restricted assets and non-current liabilities on the Statement of Net Assets. The change in liability is disclosed in Note 10B.

NOTE 17 – OTHER DISCLOSURES

A. FUND AND ACCOUNTING CHANGES

The following fund changes were made during 2013:

1. Fund Closures

Closed into the General Fund

- Cultural Resources Archaeologist Fund

Closed into the Water Fund

- Water Treatment Plant Fund

Closed into Solid Waste Fund

- Solid Waste Landfill / Solid Waste Fund

Closed into 2005 G.O. Refunding Bond Fund

- 2001 G.O. Refunding Bond Fund

B. OTHER

1. 2012 Financial Statement Corrections

- a. The investment earnings in the Cemetery Endowment Permanent Fund were reported \$360 too low in the 2012 Budget to Actual Statement. That correction has been made in the 2012 column of the Budget to Actual Statement, as well as the Statement of Revenues, Expenditures, and Changes in Fund Balances. All other Statements in 2012 reported accurate data.

2. Interest Arbitration Settlement

In December 2013, the City of Port Angeles was involved in an Interest Arbitration Hearing with the Teamsters Union, representing the City's Police Department. The arbitrator issued their opinion in early April, 2014. The settlement awards the represented Police Department employees with a non-retroactive wage increase of 2% in 2012, along with a retroactive wage increase for 2013 and 2014. In addition, the education incentive paid to officers will now be based on 2% or 4% of salary (for AA and BA degrees, respectively), instead of a flat dollar amount. Finally, the settlement requires an increase in the employee's level of cost sharing for medical benefits from 9% to 11.5% retroactive in 2013.

For 2013, the financial impact of this settlement is anticipated to be approximately \$106,000 for the wage increase. This will be minimally offset by the increase in employee's share of the medical premium, which will result in approximately \$10,000 in medical contributions.

3. Advanced Metering Infrastructure (AMI) System

In 2010, the City of Port Angeles issued Electric/Water/Wastewater revenue bonds as the primary financing method for a \$5.4 million Advanced Metering Project (AMI) system. The City contracted with Mueller System to construct and install the AMI system. In 2011, Mueller began replacing customers' electric and water meters with "smart meters" which work with the AMI system. AMI allows the meters to send overall use readings through the City's protected wireless network. One goal of the AMI system was to help customers manage their electricity and water consumption via on-line monitoring of their individual account if they chose to do so. An AMI system also is used by a City to analyze use patterns across a community, helping manage resources far better than with a manual system.

The installation of smart meters has continued since early 2011, although the pace is slower than expected. Not only is the Mueller contract behind schedule, but the City has experienced performance issues with the contractor. To diagnose and resolve the issues causing delays, the Public Works and Utilities Department hired an outside consultant, West Monroe Partners, with AMI expertise (approved by City Council on October 15, 2013). Negotiations with Mueller are on-going, and the outcome of the AMI project remains unknown at this point.

4. Solid Waste Landfill Bluff Stabilization Project

The City currently operates both a Solid Waste Collection operation as well as a Solid Waste-Transfer Station operation. Prior to the Solid Waste Transfer Station operation, the City operated a landfill that is now closed. The landfill is located on the westerly edge of Port Angeles and abuts the Strait of Juan de Fuca. Over the years, natural erosion has moved the wall of the bluff, in places, to approximately 11 feet from the edge of one cell of the closed landfill. Erosion occurs at a rate of approximately 2 – 5 feet per year. Once fully eroded, refuse contained within the cell would become exposed and would likely fall into the Strait of Juan de Fuca.

The City is currently planning for a stabilization project to begin in mid-2014. The City has called for bids for the stabilization project. Bids are due on April 30. The estimated cost of the project is approximately \$19.5 million excluding issuance costs, debt service reserves and capitalized interest costs for 2014/2015. The Washington State Department of Ecology has secured nearly \$4 million of funding assistance for this project. The remaining \$15.5 million (plus issuance costs, debt service reserves and capitalized interest costs for 2014/2015) in funding is anticipated to come from a Solid Waste Transfer Station revenue bond scheduled for sale in mid-2014.

5. Harbor Sediment Study

The City of Port Angeles has been named as one of several potentially liable parties (PLP) by the Washington State Department of Ecology related to contamination in the Port Angeles harbor. The City, along with several other PLPs, signed an Agreed Order with DOE. The Order requires the PLPs to produce a Remedial Investigation/Feasibility Study (RI/FS), and that work currently is underway.

At the Federal level, the City recently has been named a PRP by Federal Trustees under the Natural Resource Damage Assessment (NRDA) process.

The City is still in the initial stages of reviewing what, if any, liability it has under the State and the Federal claims. At this point, the City is not in a position to determine whether or not any liability will be assigned to the City for either the clean-up process or a damage assessment.

6. Adoption of New GASB Pronouncements

GASB Statement No. 65 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

The City implemented GASB 65 in 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Based on the definitions in Concepts Statement No. 4, Statement 65 provides further guidance to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources. Reclassifications of assets and liabilities were made in accordance with those instances specifically identified by the GASB 65 pronouncement.

REQUIRED SUPPLEMENTARY INFORMATION

Firemen's Pension Plan
Schedule of Funding Progress
(in thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) ¹	Unfunded Actuarial Accrued Liabilities (UAAL) ²	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
January 1, 2003	1,088	593	(495)	183%	-	N/A
January 1, 2009	854	644	(210)	133%	-	N/A
January 1, 2012	629	613	(16)	103%	-	N/A
January 1, 2013	539	529	(10)	102%	-	N/A

¹ Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method.

² Actuarial accrued liabilities less actuarial value of assets, funding excess if negative.

Source: Actuarial Valuation of Firefighters' Pension Fund, January 1, 2003 prepared by Milliman USA.
Actuarial Valuation of Firefighters' Pension Fund, January 1, 2009, 2012 and 2013 prepared by the City of Port Angeles Finance Department, which includes long term care costs which were adopted in 2006 into the Firefighters Pension Plan. Other valuation criteria can be obtained from the City's Finance Department.

Firemen's Pension Plan
Schedule of Employer Contributions

Fiscal Year Ending	Medical Payments	Fire Insurance Premiums	Total Employer Contributions	Annual Required Contribution (ARC) ¹	Percentage of ARC Contributed
December 31, 2006	(94,539)	17,046	(77,492)	N/A	N/A
December 31, 2007	(65,648)	18,457	(47,191)	N/A	N/A
December 31, 2008	(69,022)	19,193	(49,829)	N/A	N/A
December 31, 2009	(83,124)	18,301	(64,823)	N/A	N/A
December 31, 2010	(107,896)	18,640	(89,257)	N/A	N/A
December 31, 2011	(119,007)	20,353	(98,654)	N/A	N/A
December 31, 2012	(123,392)	19,383	(104,009)	N/A	N/A
December 31, 2013	(56,037)	20,544	(35,493)	N/A	N/A

Source: City of Port Angeles Finance Department

¹ If the amount is less than zero no contribution is required.

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits - LEOFF 1
Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) ¹	Unfunded Actuarial Accrued Liabilities (UAAL) ²	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
December 31, 2009	-	9,077,453	9,077,453	0%	-	N/A
December 31, 2010	-	9,077,453	9,077,453	0%	-	N/A
December 31, 2011	-	9,077,453	9,077,453	0%	-	N/A
December 31, 2012	-	6,391,776	6,391,776	0%	-	N/A
December 31, 2013	-	6,391,776	6,391,776	0%	-	N/A

¹ Actuarial present value of benefits less actuarial present value of future normal costs based on Alternative Measurement Method.

² Actuarial accrued liabilities less actuarial value of assets, funding excess if negative.

Source: Actuarial calculation was performed using the Washington State Actuary's Office alternative measurement method.

Other Postemployment Benefits - LEOFF 1
Schedule of Employer Contributions

Fiscal Year Ending	LEOFF 1 Payments	Annual Required Contribution (ARC)	Percentage of ARC Contributed
December 31, 2009	327,549	845,236	38.8%
December 31, 2010	335,822	845,236	39.7%
December 31, 2011	320,218	845,236	37.9%
December 31, 2012	296,475	595,163	49.8%
December 31, 2013	284,769	595,163	47.8%

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CITY OF PORT ANGELES, WASHINGTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2013

Schedule 16

Grantor/Pass Through Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures			Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
US Environmental Protection Agency/ pass through from WA Dept of Ecology	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	C1200182	72,560			
				Subtotal	72,560	-	72,560
US Dept of Justice/ pass through from from WA Dept of Commerce, Clallam County Sheriffs Office	Edward Byrne Memorial Justice Assistance	16.738	M12-34021-005	12,070			
				Subtotal	12,070	-	12,070
US Dept of Justice Office of Community Oriented Policing Services	Public Safety Partnership and Community Policing	16.710	2011-UM-WX-0192		159,049		
				Subtotal	-	159,049	159,049
US Dept of Justice	Bulletproof Vest Partnership	16.607	N/A		3,457		
				Subtotal	-	3,457	3,457
U.S. Dept of Justice/ pass through from WA Dept of Commerce/pass through from Clallam County Prosecuting Attorney's Office	STOP Violence Against Women Formula Grant	16.588	F12-31103-071 Police Dept Training	5,193			
			F12-31103-071 Legal Dept Training	7,885			
			Subtotal	13,078	-	13,078	

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CITY OF PORT ANGELES, WASHINGTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2013

Schedule 16

Grantor/Pass Through Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures			Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
US Dept of Homeland Security, FEMA	Port Security	97.056	EMW-2012-PU-00422-S01		23,000		
			Mobile Data Terminals Vehicle		27,000		
			Subtotal	-	50,000	50,000	
US Dept of Homeland Security, FEMA/pass through from Marine Exchange of Puget Sound	Port Security	97.056	2009-PU-T9-K04437	30,974			
			2009-PU-T9-K04438	187,927			
			EMW-2011-PU-K00268-S01	340,006			
			2009-PU-T9-K044-42	54,272			
			Subtotal	613,178	-	613,178	
US Dept of Homeland Security, FEMA/pass through from Marine Exchange of Puget Sound, Seattle Fire Dept	Port Security	97.056	2009-PU-T9-K044-22	19,830			
			Subtotal	19,830	-	19,830	
			Total CFDA #97.056	633,008	50,000	683,008	
US Dept of Homeland Security, FEMA/pass through from WA Dept of Military/pass through from Clallam County Sheriffs Office	Homeland Security Grant Program	97.067	2010-SS-T0-0084				
			Overtime	4,992			
			2012-SS-00115-S01				
			Overtime	2,551			
			Mileage	48			
			Equipment	55,550			
			Donated Equipment	66,037			
			Subtotal	129,178	-	129,178	3

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CITY OF PORT ANGELES, WASHINGTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2013

Schedule 16

Grantor/Pass Through Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures			Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
US Dept of Homeland Security, FEMA/pass through from WA Dept of Military	Disaster Grants- (Presidentially Declared Disasters)	97.036	FEMA #009-55365-00	23,262			
			WA #D12-149	33,368			
			Subtotal	56,630	-	56,630	
US Dept of Transportation/pass through from WA Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	N/A	1,400			
			Subtotal	1,400	-	1,400	
US Dept of Transportation/pass through from WA Dept of Transportation	Highway Planning and Construction	20.205	BRM-7568(001)	2,258,062.57			
			Subtotal	2,258,063	-	2,258,063	
US National Highway Traffic Safety Commission/ pass through from WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	2,173			
			Subtotal	2,173	-	2,173	
US Department of the Interior, National Park Service	Natural Resource Stewardship	15.944	N/A		49,454		
			Subtotal	-	49,454	49,454	
US Dept of Energy, Bonneville Power Administration	State Energy Program	81.041	09ES-11090		678,689		
			Subtotal	-	678,689	678,689	
Total Federal Awards Expended				3,178,160	940,650	4,118,809	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE/LOCAL FINANCIAL ASSISTANCE**

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the modified accrual basis in conformity with GAAP for governmental funds (General, Special Revenue, Debt Service, and Capital Projects). The City's proprietary funds (Enterprise and Internal Services) are accounted for on the accrual basis.

NOTE 2 – TOTAL PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal and state grant portion of the program costs. Entire program costs, including the city portion, may be more than shown.

NOTE 3– NONCASH AWARDS - EQUIPMENT

The City of Port Angeles received equipment that was purchased with federal Homeland Security funds by Clallam County. The amount reported on the schedule is the value of the property on the date it was received by the City of Port Angeles and priced by the cost of purchase and installation.

NOTE 4 – AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program is \$25,720 that was passed through to sub-recipients that administered their own projects.

NOTE 5 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program are funded by the American Recovery and Reinvestment Act of 2009 (ARRA)



ABOUT THE STATE AUDITOR'S OFFICE

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We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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