



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Port Townsend

Jefferson County

For the period January 1, 2014 through December 31, 2014

Published August 3, 2015

Report No. 1014784





Washington State Auditor's Office

August 3, 2015

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Federal Summary	4
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	6
Independent Auditor's Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	9
Independent Auditor's Report On Financial Statements	12
Financial Section.....	16
About The State Auditor's Office.....	38

FEDERAL SUMMARY

**City of Port Townsend
Jefferson County
January 1, 2014 through December 31, 2014**

The results of our audit of the City of Port Townsend 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 financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

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

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

The City did not qualify as a low-risk auditee under OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Port Townsend
Jefferson County
January 1, 2014 through December 31, 2014**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Port Townsend, Jefferson County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated July 28, 2015.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

July 28, 2015

**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 Townsend
Jefferson County
January 1, 2014 through December 31, 2014**

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

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

We have audited the compliance of the City of Port Townsend, Jefferson County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2014. 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, 2014.

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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any

deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

July 28, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Port Townsend Jefferson County January 1, 2014 through December 31, 2014

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Port Townsend, Jefferson County, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Port Townsend has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Port Townsend, for the year ended December 31, 2014, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Port Townsend, as of December 31, 2014, or the

changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2015 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

July 28, 2015

FINANCIAL SECTION

**City of Port Townsend
Jefferson County
January 1, 2014 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014
Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

City of Port Townsend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	010 General Fund	101 Drug Enforcement
Beginning Cash and Investments				
30810	Reserved	1,740,770	-	-
30880	Unreserved	5,033,431	369,334	557
388 & 588	Prior Period Adjustments, Net	(35,310)	(35,248)	-
Operating Revenues				
310	Taxes	10,272,076	5,161,351	-
320	Licenses and Permits	301,970	301,508	-
330	Intergovernmental Revenues	1,603,869	417,737	-
340	Charges for Goods and Services	7,947,377	190,349	-
350	Fines and Penalties	89,581	80,408	-
360	Miscellaneous Revenues	204,845	99,202	-
Total Operating Revenues:		20,419,718	6,250,555	-
Operating Expenditures				
510	General Government	1,710,517	729,427	-
520	Public Safety	5,134,726	3,012,774	-
530	Utilities	4,570,668	-	-
540	Transportation	946,890	-	-
550	Natural and Economic Environment	926,962	684,449	-
560	Social Services	-	-	-
570	Culture and Recreation	2,056,458	18,637	-
Total Operating Expenditures:		15,346,221	4,445,287	-
Net Operating Increase (Decrease):		5,073,497	1,805,268	-
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	247,265	1,175	-
391-393	Debt Proceeds	1,360,938	-	-
397	Transfers-In	1,921,011	-	-
Total Nonoperating Revenues:		3,529,214	1,175	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	81,705	33,462	-
591-593	Debt Service	1,552,721	-	-
594-595	Capital Expenditures	3,438,420	34,197	-
597	Transfers-Out	1,921,011	1,350,803	-
Total Nonoperating Expenditures:		6,993,857	1,418,462	-
Net Increase (Decrease) in Cash and Investments:		1,608,854	387,981	-
Ending Cash and Investments				
50810	Reserved	1,727,712	-	-
50880	Unreserved	6,620,033	722,067	557

The accompanying notes are an integral part of this statement.

102 Contingency Fund	110 Street	120 Library	135 Real Estate Excise Tax Fund	150 Lodging Tax	171 Fire and EMS
-	-	-	-	-	-
128,468	44,882	152,402	-	101,447	42,505
-	-	-	-	-	-
4,150	550,833	982,152	345,408	362,161	2,115,855
-	462	-	-	-	-
-	190,289	-	-	-	-
-	5,150	-	-	-	-
-	-	9,173	-	-	-
103	502	4,057	-	-	-
4,253	747,236	995,382	345,408	362,161	2,115,855
-	-	4,696	-	13,780	-
-	-	-	-	-	2,121,472
-	-	-	-	-	-
-	496,664	-	-	-	-
-	-	-	-	228,985	-
-	-	-	-	-	-
-	-	924,824	-	-	-
-	496,664	929,520	-	242,765	2,121,472
4,253	250,572	65,862	345,408	119,396	(5,617)
-	6,630	1,000	-	-	-
-	-	-	-	-	-
13,000	-	-	-	-	-
13,000	6,630	1,000	-	-	-
-	5,880	-	-	-	-
-	-	-	-	-	11,320
-	-	88,127	-	-	-
-	184,870	(30,186)	305,000	100,000	-
-	190,750	57,941	305,000	100,000	11,320
17,253	66,452	8,921	40,408	19,396	(16,937)
-	-	-	-	-	-
145,721	111,334	161,323	40,408	120,843	25,568

The accompanying notes are an integral part of this statement.

180 Affordable Housing Fund	190 Community Dev Block Grants	195 System Development Svs	199 Community Services	200 G.O. Debt Service	301 General CIP Projects
-	-	-	-	-	-
5,816	142,317	1,067,049	22,373	2,295	493,520
-	-	(1,067,049)	-	-	-
9,810	-	-	639,235	101,121	-
-	-	-	-	-	-
-	23,517	-	-	-	967,665
-	-	-	109,796	-	-
-	-	-	-	-	-
15,000	139	-	22,980	257	4,489
24,810	23,656	-	772,011	101,378	972,154
-	-	-	368,349	2,670	-
-	-	-	480	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	13,528	-	-	-	-
-	-	-	-	-	-
-	-	-	1,112,997	-	-
-	13,528	-	1,481,826	2,670	-
24,810	10,128	-	(709,815)	98,708	972,154
-	-	-	1,848	-	-
-	-	-	-	-	600,000
-	-	-	736,000	1,036,673	99,814
-	-	-	737,848	1,036,673	699,814
-	-	-	-	-	-
-	-	-	-	1,132,606	-
-	-	-	-	-	1,769,919
-	-	-	-	-	-
-	-	-	-	1,132,606	1,769,919
24,810	10,128	-	28,033	2,775	(97,951)
-	-	-	-	-	-
30,626	152,445	-	50,406	5,070	395,569

The accompanying notes are an integral part of this statement.

411 Water Sewer Fund	412 Storm Fund	500 Equipment Rental	540 PW Admin	555 Engineering Services	595 Unemployment Self-Insurance
1,740,770	-	-	-	-	-
1,417,705	247,875	725,263	20,531	34,092	15,000
1,066,984	(1)	4	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,661	-	-	-	-	-
5,339,543	508,223	755,089	286,494	725,832	26,901
-	-	-	-	-	-
50,088	1,795	6,216	-	17	-
5,394,292	510,018	761,305	286,494	725,849	26,901
364,127	-	227,468	-	-	-
-	-	-	-	-	-
3,147,018	423,282	-	287,169	713,199	-
-	-	450,226	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,511,145	423,282	677,694	287,169	713,199	-
1,883,147	86,736	83,611	(675)	12,650	26,901
232,127	-	4,485	-	-	-
760,938	-	-	-	-	-
35,524	-	-	-	-	-
1,028,589	-	4,485	-	-	-
25,462	-	-	-	-	16,901
408,795	-	-	-	-	-
1,347,845	98,639	99,693	-	-	-
10,524	-	-	-	-	-
1,792,626	98,639	99,693	-	-	16,901
1,119,110	(11,903)	(11,597)	(675)	12,650	10,000
1,727,712	-	-	-	-	-
3,616,857	235,971	713,670	19,856	46,742	25,000

The accompanying notes are an integral part of this statement.

City of Port Townsend
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	601 Refundable Deposits	610 Firemen's Pension	613 Court-Agency
308	Beginning Cash and Investments	343,201	70,466	227,544	16,651
388 & 588	Prior Period Adjustments, Net	3	-	2	-
310-360	Revenues	55,034	-	34,936	-
380-390	Other Increases and Financing Sources	102,360	20,000	-	82,360
510-570	Expenditures	62,457	-	49,461	-
580-590	Other Decreases and Financing Uses	87,407	-	-	87,407
Net Increase (Decrease) in Cash and Investments:		7,530	20,000	(14,525)	(5,047)
508	Ending Cash and Investments	350,734	90,466	213,021	11,604

		621 Memorial	623 Golf Course Fund
308	Beginning Cash and Investments	2,497	26,043
388 & 588	Prior Period Adjustments, Net	-	1
310-360	Revenues	9,552	10,546
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	-	12,996
580-590	Other Decreases and Financing Uses	-	-
Net Increase (Decrease) in Cash and Investments:		9,552	(2,450)
508	Ending Cash and Investments	12,049	23,594

The accompanying notes are an integral part of this statement.

City of Port Townsend

Notes to the Financial Statements

For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The City of Port Townsend reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

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

The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund (Fund 010):

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

Special Revenue Funds (Funds in the 100 series):

These funds account for specific revenue sources derived from specific taxes, grants or other sources, which are restricted or committed to expenditures for specified purposes of the city. (Note: In prior years, the City has reported its System Development Charge Fund in the 100 series. In 2014, this fund has been reassigned as a proprietary fund (400 series) as this fund was created to fund water and wastewater capital improvements and replacements.)

Debt Service Funds (Funds in the 200 series):

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

Capital Projects Funds (Funds in the 300 series):

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

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds (Funds in the 400 series):

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

Internal Service Funds (Funds in the 500 series):

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

FIDUCIARY FUND TYPES:

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

Refundable Deposits (Fund 601):

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

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

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

Agency Funds (Funds 613 – 699):

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law the city also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

C. Budgets

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

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

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

FISCAL YEAR 2014			
	Final Appropriated Amounts	Actual Expenditures	Variance
General	\$ 7,019,565	\$ 6,980,978	\$ 38,587
Street	\$ 688,502	\$ 687,412	\$ 1,090
Library	\$ 994,144	\$ 987,461	\$ 6,683
Real Estate Excise Tax Fund	\$ 305,000	\$ 305,000	\$ 0
Lodging Tax	\$ 342,780	\$ 342,765	\$ 15
Fire & EMS Service	\$ 2,132,918	\$ 2,132,792	\$ 126
Affordable Housing Fund	\$ 6,500	\$ -	\$ 6,500
Community Development Block Grants	\$ 13,528	\$ 13,528	\$ 0
Community Services	\$ 1,521,921	\$ 1,481,825	\$ 40,096
GO Debt Service	\$ 1,139,873	\$ 1,135,275	\$ 4,598
Capital Improvement	\$ 3,266,378	\$ 1,817,586	\$ 1,448,792
Water/Sewer Utility	\$ 4,207,119	\$ 4,091,152	\$ 115,967
Utility Construction Fund	\$ 2,982,084	\$ 1,365,235	\$ 1,616,849
Trans line Replacement	\$ 195,292	\$ 98,207	\$ 97,085
1978 Water Sewer Rev Bond	\$ 25,000	\$ 25,000	\$ -
Storm water	\$ 534,880	\$ 521,921	\$ 12,959
Equipment Rental	\$ 790,099	\$ 777,388	\$ 12,711
Public Work & Admin	\$ 292,313	\$ 287,169	\$ 5,144
Engineering Service Fund	\$ 735,688	\$ 713,199	\$ 22,489
System Development Charges	\$ 248,090	\$ 12,114	\$ 235,976
Unemployment Self Insurance	\$ 20,000	\$ 16,901	\$ 3,099
Firemen's Pension	\$ 67,519	\$ 49,462	\$ 18,057
Golf Course Fund	\$ 14,012	\$ 12,996	\$ 1,016
	\$ 27,543,205	\$ 23,855,364	\$ 3,687,841

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

D. Cash and Investments

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

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

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

Investments are reported at fair value. Investments by type at December 31, 2014 are as follows:

City of Port Townsend		
State of Washington		
Local Government Investment Pool		
1/1/2014 Beginning Balance		\$6,387,682
Gross Investment Earnings	\$ 7,686	
Administrative Fees	<u>(695)</u>	
Net Investment Earnings		6,990
Deposits	\$ 2,200,000	
Withdrawals	<u>(2,150,000)</u>	
		50,000
12/31/2014 Ending Balance (Market Value)		<u>\$6,444,672</u>

E. Capital Assets

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

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

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

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours for regular employees and 360 hours for department heads. Vacation leave is payable upon separation or retirement. Sick leave may be accumulated up to 1,440 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Expenditures related to leave are recognized when paid.

The compensated absence balances decreased by \$28,991 from 2013 to 2014. More vacation time was paid than was accrued in 2014, largely related to retirement payouts for several long term employees.

G. Long-Term Debt

See Note 4.

H. Other Financing Sources or Uses

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

I. Risk Management

See Note 6.

J. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of as of December 31, 2014 are \$1,727,712. These funds were reserved by Trust in 1956 for system replacement or improvements related to the Olympic Gravity Water System Pipeline (Ordinance 1321).

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3 – PROPERTY TAXES

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

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

The city's regular levy for 2014 was \$1.73897 per \$1,000 on assessed valuation of \$1,219,761,437 for a total regular levy of \$2,121,128.55.

A Library LID lift was approved by voters in 2008 to be phased in over 2009-2011. For 2014 the library levy was 0.80908 per \$1000 for a total of \$986,884.58.

Voters approved a Fire LID lift in 2012. For 2014 the Fire LID lift was 0.53429 per \$1000 for a tax amount of \$651,706.34.

The city also has a special levy for Emergency Medical Services (EMS). The EMS levy rate was voter approved in 2010 to \$.50 per \$1,000 for a total levy of \$609,880.72 in 2014.

NOTE 4 – LONG TERM DEBT

The accompanying schedule of Long Term Liabilities (Schedule 09) provides a listing of the outstanding debt of the city and summarizes the City of Port Townsend's debt transactions for Calendar Year 2014. The debt services payments for the year being reported and future payment requirements, including interest, are as follows:

DEBT SERVICE SCHEDULE				
Year	G.O. Bonds	Revenue Bonds	Other Debt	Total LT Debt
2014	\$1,132,606	\$25,000	\$426,656	\$1,584,262
2015	\$1,138,685	\$24,000	\$404,956	\$1,567,641
2016	\$1,298,435	\$23,000	\$402,535	\$1,723,970
2017	\$1,284,565	\$22,000	\$466,147	\$1,772,712
2018	\$1,285,200	\$21,000	\$444,913	\$1,751,113
2019-2023	\$6,386,100	\$0	\$1,546,310	\$7,932,410
2024-2028	\$5,573,385	\$0	\$807,233	\$6,380,618
2029-2033	\$4,086,730	\$0	\$508,473	\$4,595,203
2034-2038	\$3,374,058	\$0	\$103,498	\$3,477,556
Total	\$25,559,764	\$115,000	\$5,110,722	\$30,785,486

A. Bonds

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

In 2008 the City issued \$7,500,000 in bonds to finance road and sidewalk improvements, as well as tourism, infrastructure, and waterfront access improvements. In 2010 the City issued an additional \$3,740,000 in bonds for sidewalks, utilities and street improvements, as well as funding for the Carnegie Library seismic retrofit. In 2012 the City refunded the balance of the 1999 G.O. Bonds and the 2005 G.O. Bonds. As part of the same refunding \$1,505,000 of the 2003 G.O. Bonds were advanced refunded as well as \$2,500,000 of the 2002 G.O. Bonds.

In 2014, the City Council authorized a Limited General Obligation Bond Anticipation Note (BAN) for \$1,500,000. On December 3, 2014, the City executed a line of credit with Cashmere Valley Bank. The BAN line of credit interest rate is a variable rate tied to the LIBOR (London Interbank Offered Rate) and is calculated as 65% of the 3 month LIBOR rate plus 1.05%. The rate as of 12/31/2014 was 1.20%. The maturity date of the line of credit is December 1, 2017.

General Obligation LT Debt currently outstanding as of December 31, 2014 is as follows:

G.O. LONG TERM OUTSTANDING DEBT					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
2008	Limited G.O. Bonds for construction funds for civic and street improvements	\$7,500,000	4.15 - 5.00%	12/1/2038	\$7,500,000
2010	Limited G.O. Bonds for street, sidewalk, utilities and historic district	\$3,740,000	2.30 - 5.00%	12/1/2030	\$3,740,000
2012	Limited G.O. Bonds for refunding of 1999 Bonds, a portion of the 2002 G.O. Bonds, and a portion of the 2005 G.O. Bonds	\$5,530,000	.50 - 4.25%	12/1/2025	\$4,610,000
2014	Limited G.O. Bond Anticipation Note (Line of Credit) for capital improvements at the Mountain View campus and other general capital project costs	\$1,500,000	Variable rate tied to Libor index (65% of 3 month Libor plus 1.05%, rate as of 12/31/2014 - 1.20%	12/1/2017	\$600,000
Total					\$16,450,000

Proprietary Long Term Debt currently outstanding as of December 31, 2014 is as follows:

PROPRIETARY LONG TERM DEBT					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
1978	Water/Sewer Revenue Bonds for Water and Sewer Improvements	\$395,000	5.00%	12/1/2018	\$80,000

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

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

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

The 2012 DWSRF Loan has not drawn down the full loan amount available; the debt outstanding reflects current drawdowns less any principal payments.

As of December 31, 2014 the long-term debt payable for PWTF and SRF loans consisted of the following:

PUBLIC WORKS AND STATE REVOLVING FUND LOAN SCHEDULE					
Issue Year	Purpose	Original Issue	Interest Rate	Maturity Date	Debt Outstanding
1998	PWTF Loan: CT Pipeline Tri-Area Water Storage, Tri-Area Well Upgrades	\$2,172,055	1.00%	12/1/2018	\$178,872
1999	PWTF Loan: Gaines Street Lift Station; San Juan Street Trunk Line	\$1,434,365	1.00%	12/1/2019	\$297,974
2001	PWTF Loan: Wastewater Treatment Outfall Expansion; Trunk Sewer Line Replacement	\$1,153,350	0.50%	12/1/2021	\$386,935
2002	PWTF Loan: Morgan Hill Water System Improvements	\$1,242,742	0.50%	12/1/2022	\$533,615
2002	SRF Loan: Wastewater Conveyance Storm and Sewer Separation; Gains Street Lift Station Phase II; Trunk Sewer Line Replacement	\$1,896,000	1.50%	12/1/2024	\$898,769
2004	Department of Ecology Loan for Wastewater Conveyance System	\$856,803	1.50%	9/8/2024	\$471,157
2012	PWTF Loan: City Lake Repair	\$1,000,000	0.50%	12/1/2031	\$894,737
2012	DWSRF Loan: LT2 Federally Mandated Water Treatment Facility	\$3,071,521	1.50%	12/1/2036	\$660,130
Total					\$4,322,189

NOTE 5 – PENSION PLANS

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

Historical trends or other information regarding each plan is presented in the State Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communication Unit
PO Box 48380
Olympia, WA 98504-8380

The City of Port Townsend is also the administrator of a pension retirement system called Firemen's Pension. The system is shown as a trust fund in the financial statements of the City of Port Townsend. As of December 31, 2014 there were a total of four individuals covered by this system of which zero were currently still employed and four were drawing benefits.

As of December 31, 2014 the market value of assets was \$213,020.

NOTE 6 – RISK MANAGEMENT

The City of Port Townsend is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (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 175 Members.

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

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

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

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

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

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

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

NOTE 7 – RESTRICTED FUNDS

In accordance with bond ordinances and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. As of December 31, 2014, the City has no restricted bond funds.

NOTE 8 – CONTINGENCIES AND LITIGATION

In the opinion of management, the City's insurance program (see Note 7) and self-insurance fund (see Note 12) are adequate to pay all known or pending claims.

NOTE 9 – INTERFUND LOANS

In April 2012, City Council authorized an interfund loan from the Transmission Line Replacement Fund to the General Fund in the amount of \$100,000 for the purpose of startup funding for the Main Street excise tax program.

In May 2013, the City Council authorized up to a million dollar interfund loan from the Transmission Line Replacement Fund to the Water Capital Improvement Project fund for interim financing of designing the Ultraviolet Water Treatment Project. The loan is for design work and may include appropriate City engineering and overhead costs. As of December 31, 2014, \$161,250 has been drawn against this loan. The balance of the loan will be repaid once permanent financing for this project is finalized in 2015 and 2016.

	Borrowing Fund	Lending Fund	Balance 1/1/2014	2014 Repayments	Balance 12/31/2014
Main Street	General (010)	Transmission Line (417)	\$66,713	\$33,333	\$33,380
LT2 Water Project	Water Capital (415)	Transmission Line (417)	\$161,250	\$0	\$161,250
Total			\$227,963	\$33,333	\$194,630

NOTE 10 – INTERLOCAL GOVERNMENT WITH EAST JEFFERSON FIRE RESCUE

On June 20, 2012 the City amended the agreement with East Jefferson Fire Rescue (District) to reimburse the district for the purchase of a third fire engine. The City has committed to pay the District a total of \$392,081 (which includes interest) for the fire engine. As of December 31, 2014, the outstanding debt service related to this agreement is \$369,441. The payment schedule is as follows:

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

NOTE 11 – SELF INSURANCE

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

In 2013, the City of Port Townsend established an Unemployment Self Insurance Fund. As of December 31, 2014 the fund had a balance of \$25,000 as compared to the prior year ending Fund balance of \$15,000.

NOTE 12 – MANAGEMENT FUNDS

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

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

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

NOTE 13 – POST EMPLOYMENT BENEFITS

The City of Port Townsend has a commitment to pay for post-employment benefits for employees that belong to LEOFF1 retirement system. These benefits include medical insurance premiums, out-of-pocket medical costs, and dental and vision care. Six police retirees received these benefits during the year and \$65,050 was paid out for those benefits.

NOTE 14 – CONSTRUCTION COMMITMENT

The City of Port Townsend has four active construction projects as of December 31, 2014. Total construction commitment as of the end of the year totaled \$3,023,289. A summary table of those commitments is below:

TABLE OF CONSTRUCTION COMMITMENTS					
PROJECT	CONTRACTOR	PROJECT PHASE	CONTRACT AMOUNT	PAID TO DATE	REMAINING CONTRACT
Water Treatment Phase II	HDR Engineering	Design	\$846,476	\$718,617	\$127,859
Water Treatment Phase II	HDR Engineering	Design	\$821,792	\$441,496	\$380,296
Water Treatment Phase II	Evoqua	Equip. Purchase	\$149,500	\$45,000	\$104,500
5 MG Reservoir	HDR Eng.	Design	\$298,017	\$15,737	\$282,280
Howard St Ext	BergerABAM	Design	\$1,038,768	\$343,777	\$694,991
Energy Upgrades	Honeywell	Construction	\$2,381,461	\$948,098	\$1,433,363
Sheridan Sidewalks	Shea Carr Jewell	Design	\$65,324	\$0	\$65,324
Big Quilcene River	Bruch & Bruch	Construction	\$193,480	\$183,227	\$10,253
				Total	\$3,098,866

NOTE 15 – PRIOR YEAR ADJUSTMENTS

During fiscal year 2014, the City of Port Townsend hired both a new Finance & Administrative Services Director and a new Finance Manager. As part of the year end close out, a reconciliation of all beginning fund balances occurred and several immaterial adjustments were made to properly recognize the January 1, 2014 beginning balances. The adjustments included a \$35,248 reduction in the reported beginning fund balance of the general fund to eliminate a prior year receivable from the financial records. Additional minor rounding adjustments were made to reconcile the beginning fund balances for the Transmission Line Fund (\$65 reduction), Storm Fund (\$1 reduction) and Equipment Rental Fund (\$4 addition).

One significant prior period adjustment was made to move the System Development Charge fund from a General Government fund to an Enterprise fund. In prior years, the City has reported its System Development Charge Fund in the 100 series. In 2014, this fund has been reassigned as a proprietary fund (400 series) as this fund was created to fund water and wastewater capital improvements and replacements. This prior period adjustment was for \$1,067,049.

NOTE 16 – SUBSEQUENT EVENTS

In February 2015, the voters of the City of Port Townsend approved a ballot measure to authorize the City to issue up to \$3.6 million in bonds for the Mountain View Campus energy retrofit and other campus improvements. The total cost of the project is estimated to be \$4.8 million and the remaining \$1.2 million will be funded by grants and donations. Some of the energy work began in late 2014 and a Bond Anticipation Note (BAN) line of credit was used to fund the costs of this project prior to the issuance of the bonds (see Note 4 A.) This line of credit will be repaid once the bonds are issued, which is anticipated to be in June 2015.

NOTE 17 – OTHER FINANCIAL INFORMATION

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

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

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

In 2014, the City provided \$44,000 of support to the Authority from the Lodging Tax Fund (approved by the Lodging Tax Advisory Committee and the City Manager) to fund joint marketing of the Fort Worden Lifelong Learning Center and the City of Port Townsend.

**City of Port Townsend
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
251.11	2008 Bond	12/1/2038	7,500,000	-	-	7,500,000
251.11	2010 Bond	12/1/2030	3,740,000	-	-	3,740,000
251.11	2012 Refunding Bond	12/1/2025	5,100,000	-	490,000	4,610,000
263.91	2014 BAN Line of Credit	12/1/2017	-	600,000	-	600,000
263.81	EJFR Equipment Loan	5/31/2016	392,080	-	35,137	356,943
259.11	Compensated Absences		373,590	405,157	438,295	340,452
Total General Obligations:			17,105,670	1,005,157	963,432	17,147,395
Revenue Obligations						
252.11	1978 Water Revenue Bond	3/1/2018	100,000	-	20,000	80,000
263.82	DOE Wastewater	10/31/2023	514,515	-	43,358	471,157
263.82	1998 PWTF Loan Water	7/1/2018	223,590	-	44,718	178,872
263.82	1999 PWTF Loan Sewer	7/1/2019	357,568	-	59,594	297,974
263.82	2001 PWTF Loan Sewer	7/1/2021	442,214	-	55,279	386,935
263.82	2002 PWTF Loan Water	7/1/2022	600,317	-	66,702	533,615
263.82	2012 PWTF Loan LT2	6/1/2023	604,389	332,078	37,697	898,769
263.82	2012 PWTF Loan City Lake	6/1/2031	947,369	-	52,632	894,737
263.82	2012 DWSRF	10/1/2036	231,269	428,859	-	660,128
259.12	Compensated Absences		90,821	95,572	91,425	94,968
Total Revenue Obligations:			4,112,052	856,509	471,405	4,497,156
Total Liabilities:			21,217,722	1,861,666	1,434,837	21,644,551

City of Port Townsend
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)				Expenditures			
Drinking Water State Revolving Fund Cluster	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Note
Office Of Water, Environmental Protection Agency (via Environmental Protection Agency)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-99083909-1	4,873	-	4,873	
Office Of Water, Environmental Protection Agency (via Environmental Protection Agency)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM12-952-092	510,862	-	510,862	
Total Drinking Water State Revolving Fund Cluster:				515,735	-	515,735	
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via Department Of Transportation)	Highway Planning and Construction	20.205	STPUS-7625(001)	95,901	-	95,901	
Federal Highway Administration (fhwa), Department Of Transportation (via Department Of Transportation)	Highway Planning and Construction	20.205	STPUS-7638(001)	3,306	-	3,306	
Federal Highway Administration (fhwa), Department Of Transportation (via Department Of Transportation)	Highway Planning and Construction	20.205	STPUS-HLP(001)	3,576	-	3,576	
Total Highway Planning and Construction Cluster:				102,783	-	102,783	
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Department Of Transportation)	State and Community Highway Safety	20.600	DUI/Seatbelt	2,335	-	2,335	
Total Highway Safety Cluster:				2,335	-	2,335	
Other Programs							
Violence Against Women Office, Department Of Justice	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2010-WE-AX-0020	-	145,176	145,176	3
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	108684	-	1,128	1,128	
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	2012-UM-WX-0173	-	38,500	38,500	
Total Federal Awards Expended:				620,853	184,804	805,657	

The accompanying notes are an integral part of this statement.

CITY OF PORT TOWNSEND

NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS FOR THE YEAR ENDING DECEMBER 31, 2014:

NOTE 1: - BASIS OF ACCOUNTING

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

NOTE 2: - PROGRAM COSTS

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

NOTE 3: - AMOUNTS AWARDED TO SUB RECIPIENTS

Included in the total amount expended for federal program CDFA 16-590 is \$145,176 that was passed through to a sub recipient that administered its own project.

An additional \$74,446 was paid to the sub recipient in 2014, but reported on the 2013 Schedule of Expenditures of Federal Awards.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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