



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

**Financial Statements and Federal Single Audit  
Report**

**City of Port Townsend**

**Jefferson County**

**For the period January 1, 2016 through December 31, 2016**

**Published July 24, 2017**

**Report No. 1019516**





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

July 24, 2017

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

**Report on Financial Statements and Federal Single Audit**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Port Townsend  
Jefferson County  
January 1, 2016 through December 31, 2016**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

#### Financial Statements

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

##### Internal Control over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control over Major Programs:

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

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

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

### **Identification of Major Federal Programs:**

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

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

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

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

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

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

**City of Port Townsend  
Jefferson County  
January 1, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated July 17, 2017.

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

July 17, 2017

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

**City of Port Townsend  
Jefferson County  
January 1, 2016 through December 31, 2016**

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

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

We have audited the compliance of the City of Port Townsend, Jefferson County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

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

### **Purpose of this Report**

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

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

Pat McCarthy

State Auditor

Olympia, WA

July 17, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Port Townsend Jefferson County January 1, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

#### **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, 2016, 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, 2016, 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2017 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.

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Pat McCarthy

State Auditor

Olympia, WA

July 17, 2017

## **FINANCIAL SECTION**

**City of Port Townsend  
Jefferson County  
January 1, 2016 through December 31, 2016**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2016  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016  
Notes to Financial Statements – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2016  
Schedule of Expenditures of Federal Awards – 2016  
Notes to the Schedule of Expenditures of Federal Awards – 2016

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>010 General Fund</b>	<b>101 Drug Enforcement</b>	<b>102 Contingency Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	1,259,860	-	-	-
30880	Unreserved	7,218,638	976,378	557	149,876
388 / 588	Prior Period Adjustments, Net	13	-	-	-
<b>Revenues</b>					
310	Taxes	12,046,649	6,865,140	-	-
320	Licenses and Permits	609,811	608,500	-	-
330	Intergovernmental Revenues	1,310,514	283,739	-	-
340	Charges for Goods and Services	9,605,118	84,455	-	-
350	Fines and Penalties	67,311	57,972	-	-
360	Miscellaneous Revenues	251,769	47,928	-	401
Total Revenues:		23,891,172	7,947,734	-	401
<b>Expenditures</b>					
510	General Government	2,268,777	1,134,277	-	-
520	Public Safety	5,209,963	2,980,410	-	-
530	Utilities	3,987,517	-	-	-
540	Transportation	950,587	-	-	-
550	Natural and Economic Environment	1,200,388	903,904	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	2,089,090	17,467	-	-
Total Expenditures:		15,706,322	5,036,058	-	-
Excess (Deficiency) Revenues over Expenditures:		8,184,850	2,911,676	-	401
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	15,374,053	-	-	-
397	Transfers-In	3,339,022	62,076	-	20,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	33,129	1,985	-	-
381, 395, 398	Other Resources	926	-	-	-
Total Other Increases in Fund Resources:		18,747,130	64,061	-	20,000
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	17,253,645	70,736	-	-
591-593, 599	Debt Service	2,448,602	-	-	-
597	Transfers-Out	3,375,828	2,444,434	-	50,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	47,389	15,553	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		23,125,464	2,530,723	-	50,000
<b>Increase (Decrease) in Cash and Investments:</b>		<b>3,806,516</b>	<b>445,014</b>	<b>-</b>	<b>(29,599)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	1,182,821	-	-	-
5088000	Unreserved	11,102,206	1,421,392	557	120,277
<b>Total Ending Cash and Investments</b>		<b>12,285,027</b>	<b>1,421,392</b>	<b>557</b>	<b>120,277</b>

The accompanying notes are an integral part of this statement.

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>110 Street</b>	<b>120 Library</b>	<b>135 Real Estate Excise Tax Fund</b>	<b>150 Lodging Tax</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	195,688	151,852	68,309	157,097
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	1,021,077	590,244	474,938
320	Licenses and Permits	1,311	-	-	-
330	Intergovernmental Revenues	212,085	1,394	-	-
340	Charges for Goods and Services	5,000	-	-	-
350	Fines and Penalties	-	9,339	-	-
360	Miscellaneous Revenues	2,188	37,417	387	-
Total Revenues:		220,584	1,069,227	590,631	474,938
<b>Expenditures</b>					
510	General Government	-	-	-	18,897
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	518,605	-	-	-
550	Natural and Economic Environment	-	-	-	285,359
560	Social Services	-	-	-	-
570	Culture and Recreation	-	940,471	-	-
Total Expenditures:		518,605	940,471	-	304,256
Excess (Deficiency) Revenues over Expenditures:		(298,021)	128,756	590,631	170,682
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	612,116	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		612,116	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	19,893	74,814	-	170
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	184,953	100	479,000	150,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		204,846	74,914	479,000	150,170
<b>Increase (Decrease) in Cash and Investments:</b>		<b>109,249</b>	<b>53,842</b>	<b>111,631</b>	<b>20,512</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	304,937	205,694	179,940	177,609
<b>Total Ending Cash and Investments</b>		<b>304,937</b>	<b>205,694</b>	<b>179,940</b>	<b>177,609</b>

See accompanying notes

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>171 Fire and EMS</b>	<b>180 Affordable Housing Fund</b>	<b>190 Community Dev Block Grants</b>	<b>199 Community Services</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	32,713	40,662	141,751	105,699
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	2,399,034	10,000	-	425,009
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	16,974	-
340	Charges for Goods and Services	-	-	-	125,569
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	546	118	559	72,990
Total Revenues:		2,399,580	10,118	17,533	623,568
<b>Expenditures</b>					
510	General Government	-	-	-	414,181
520	Public Safety	2,229,553	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	11,125	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	1,126,260
Total Expenditures:		2,229,553	-	11,125	1,540,441
Excess (Deficiency) Revenues over Expenditures:		170,027	10,118	6,408	(916,873)
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	1,059,126
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	19,480
381, 395, 398	Other Resources	-	-	-	925
Total Other Increases in Fund Resources:		-	-	-	1,079,531
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	67,679
591-593, 599	Debt Service	182,359	-	-	-
597	Transfers-Out	4,494	10,000	-	52,608
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	22,131
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		186,853	10,000	-	142,418
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(16,826)</b>	<b>118</b>	<b>6,408</b>	<b>20,240</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	15,887	40,780	148,159	125,939
<b>Total Ending Cash and Investments</b>		<b>15,887</b>	<b>40,780</b>	<b>148,159</b>	<b>125,939</b>

see accompanying notes

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>200 G.O. Debt Service</b>	<b>301 General CIP Projects</b>	<b>411 Water Sewer CIP</b>	<b>412 Storm Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	1,259,860	-
30880	Unreserved	65,184	1,295,821	2,667,251	134,604
388 / 588	Prior Period Adjustments, Net	-	-	13	-
<b>Revenues</b>					
310	Taxes	261,207	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	787,298	1,524	-
340	Charges for Goods and Services	-	-	6,553,480	687,209
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,005	188	72,999	535
Total Revenues:		262,212	787,486	6,628,003	687,744
<b>Expenditures</b>					
510	General Government	1,200	-	434,662	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	3,185,032	448,666
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		1,200	-	3,619,694	448,666
Excess (Deficiency) Revenues over Expenditures:		261,012	787,486	3,008,309	239,078
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	15,374,053	-
397	Transfers-In	1,213,697	179,000	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	11,664	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		1,213,697	179,000	15,385,717	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	1,070,009	14,505,996	170,758
591-593, 599	Debt Service	1,468,800	-	797,443	-
597	Transfers-Out	-	-	188	51
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	8,565	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,468,800	1,070,009	15,312,192	170,809
<b>Increase (Decrease) in Cash and Investments:</b>		<b>5,909</b>	<b>(103,523)</b>	<b>3,081,834</b>	<b>68,269</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	1,182,821	-
5088000	Unreserved	71,093	1,192,298	5,826,137	202,873
<b>Total Ending Cash and Investments</b>		<b>71,093</b>	<b>1,192,298</b>	<b>7,008,958</b>	<b>202,873</b>

see accompanying notes

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>423 Golf Course Fund</b>	<b>500 Equipment Rental</b>	<b>540 PW Admin</b>	<b>555 Engineering Services</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	31,623	829,344	37,488	112,075
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	7,500	-	-
340	Charges for Goods and Services	-	793,085	356,510	999,810
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	10,564	3,422	118	338
Total Revenues:		10,564	804,007	356,628	1,000,148
<b>Expenditures</b>					
510	General Government	-	262,553	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	353,819	-
540	Transportation	-	431,982	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	4,892	-	-	-
Total Expenditures:		4,892	694,535	353,819	-
Excess (Deficiency) Revenues over Expenditures:		5,672	109,472	2,809	1,000,148
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	190,000	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	1	-	-
Total Other Increases in Fund Resources:		-	190,001	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	337,891	-	935,699
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	1,140
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	337,891	-	936,839
<b>Increase (Decrease) in Cash and Investments:</b>		<b>5,672</b>	<b>(38,418)</b>	<b>2,809</b>	<b>63,309</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	37,295	790,926	40,297	175,384
<b>Total Ending Cash and Investments</b>		<b>37,295</b>	<b>790,926</b>	<b>40,297</b>	<b>175,384</b>

see accompanying notes

**City of Port Townsend**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>595</b>
		<b>Unemployment</b>
		<b>Self-Insurance</b>
		<hr/>
<b>Beginning Cash and Investments</b>		
30810	Reserved	-
30880	Unreserved	24,666
388 / 588	Prior Period Adjustments, Net	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	66
Total Revenues:		<hr/> 66
<b>Expenditures</b>		
510	General Government	3,007
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 3,007
Excess (Deficiency) Revenues over Expenditures:		<hr/> (2,941)
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	3,007
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> 3,007
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
<b>Increase (Decrease) in Cash and Investments:</b>		<hr/> <b>66</b>
<b>Ending Cash and Investments</b>		
5081000	Reserved	-
5088000	Unreserved	24,732
<b>Total Ending Cash and Investments</b>		<hr/> <b>24,732</b>

see accompanying notes

**City of Port Townsend**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>601 Refundable Deposits</b>	<b>610 Firemen's Pension</b>	<b>613 Court- Agency</b>
308	Beginning Cash and Investments	425,641	80,505	214,837	127,750
388 & 588	Prior Period Adjustments, Net	-	-	-	-
310-360	Revenues	795	163	632	-
380-390	Other Increases and Financing Sources	150,876	15,337	39,245	96,294
510-570	Expenditures	28,415	-	28,415	-
580-590	Other Decreases and Financing Uses	254,503	39,557	-	214,946
	Net Increase (Decrease) in Cash and Investments:	(131,247)	(24,057)	11,462	(118,652)
508	Ending Cash and Investments	294,394	56,448	226,299	9,098

		<b>621 Memorial</b>
308	Beginning Cash and Investments	2,549
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	-
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	-
	Net Increase (Decrease) in Cash and Investments:	-
508	Ending Cash and Investments	2,549

*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, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

A. Fund Accounting

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

The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

General Fund (Fund 010):

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

Special Revenue Funds (Funds in the 100 series):

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

Debt Service Funds (Funds in the 200 series):

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

Capital Projects Funds (Funds in the 300 series):

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

Permanent Funds

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

**PROPRIETARY FUND TYPES:**

Enterprise Funds (Funds in the 400 series):

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

*Notes:*

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

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

Internal Service Funds (Funds in the 500 series):

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

**FIDUCIARY FUND TYPES:**

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

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 2016			
	Final Appropriated Amounts	Actual Expenditures	Variance
General	\$ 8,095,907	\$ 7,881,562	\$ 214,345
Street	\$ 769,607	\$ 723,450	\$ 46,157
Library	\$ 1,063,793	\$ 1,015,383	\$ 48,410
Real Estate Excise Tax Fund	\$ 479,000	\$ 479,000	\$ -
Lodging Tax	\$ 478,397	\$ 454,425	\$ 23,972
Fire & EMS Service	\$ 2,416,406	\$ 2,416,406	\$ -
Affordable Housing Fund	\$ 20,000	\$ 10,000	\$ 10,000
Community Development Block Grants	\$ 15,245	\$ 11,125	\$ 4,120
Community Services	\$ 1,702,894	\$ 1,682,859	\$ 20,035
GO Debt Service	\$ 1,471,799	\$ 1,469,999	\$ 1,800
Capital Improvement	\$ 1,320,851	\$ 1,121,314	\$ 199,537
Water/Sewer Utility	\$ 4,619,407	\$ 4,451,800	\$ 167,607
System Development Charges	\$ 64,000	\$ 63,859	\$ 141
Utility Construction Fund	\$ 18,617,690	\$ 14,472,594	\$ 4,145,096
Trans line Replacement	\$ 332,922	\$ 130,294	\$ 202,627
1978 Water Sewer Rev Bond	\$ 23,000	\$ 23,000	\$ -
Water Capital Debt Reserve	\$ 434,782	\$ 434,782	\$ -
Storm water	\$ 740,168	\$ 619,476	\$ 120,692
Equipment Rental	\$ 1,221,492	\$ 1,032,427	\$ 189,065
Public Work & Admin	\$ 356,510	\$ 353,819	\$ 2,691
Engineering Service Fund	\$ 966,943	\$ 936,840	\$ 30,103
Unemployment Self Insurance	\$ 6,000	\$ 3,007	\$ 2,993
Firemen's Pension	\$ 36,792	\$ 28,416	\$ 8,376
Court Agency Funds	\$ 257,816	\$ 254,503	\$ 3,313
Golf Course Fund	\$ 14,272	\$ 4,891	\$ 9,381
<b>TOTAL</b>	<b>\$ 45,525,693</b>	<b>\$ 40,075,231</b>	<b>\$ 5,450,462</b>

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

#### D. Cash and Investments

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

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

Commission.

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

Investments are reported at fair value. Investment activity for the year ending December 31, 2016 is listed below:

<b>City of Port Townsend</b>		
<b>State of Washington</b>		
<b>Local Government Investment Pool</b>		
<b>1/1/2016 Beginning Balance</b>		<b>\$ 6,455,263</b>
Gross Investment Earnings	\$ 30,495	
Administrative Fees	(529)	
Net Investment Earnings		29,966
Deposits	\$ -	
Withdrawals	-	
		-
<b>12/31/2016 Ending Balance (Market Value)</b>		<b>\$ 6,485,230</b>

E. Capital Assets

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

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

Capital Improvements are defined as projects to create, expand, or modify a capital facility. The project may include design permitting, environmental analysis, land acquisition, construction, landscaping, site improvements, initial furnishings, and equipment. The project cost must exceed \$5,000 and have a useful life of one year or more.

F. Compensated Absences

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

The compensated absence balances increased by \$16,505 from 2015 to 2016, ending at \$455,544 for the year.

G. Long-Term Debt

See Note 4.

H. Other Financing Sources or Uses

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

I. Risk Management

See Note 6.

J. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist as of December 31, 2016 are \$1,182,821. 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 2016 was \$1.63449 per \$1,000 on assessed valuation of \$1,340,801,391 for a total regular levy of \$2,191,532.

A Library LID lift was approved by voters in 2008 to be phased in over 2009-2011. For 2016 the library levy was \$0.76037 per \$1,000 for a total of \$1,019,509.

Voters approved a Fire LID lift in 2012. For 2016 the Fire LID lift was \$0.50217 per \$1,000 for a tax amount of \$673,312.

The city also has a special levy for Emergency Medical Services (EMS). The EMS levy rate was voter approved in 2010 to \$0 .50 per \$1,000 for a total levy of \$670,401 in 2016.

In 2015, voters approved a tax levy for improvements to the Mountain View Commons. The tax levy pays for the debt service on the bonds issued to make these improvements. The levy rate for 2016 was \$0.05090 per \$1,000 of assessed property value for a total levy of \$67,012.

#### **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 2016. The debt service payments for the year being reported and future payment requirements, including interest, are listed in the table below. In addition to the debt service payments noted below, the City made an intergovernmental loan payment to East Jefferson Fire & Rescue (see note 10). Schedule 9 also includes liabilities for compensated absences (see Note 1) and pension liabilities (see note 5).

<b>DEBT SERVICE SCHEDULE</b>						
<b>Year</b>	<b>G.O. Bonds</b>	<b>G.O. Bond Anticipation Line of Credit</b>	<b>Revenue Bond Anticipation Line of Credit</b>	<b>Revenue Bonds</b>	<b>Other Debt</b>	<b>Total LT Debt</b>
2016	\$1,468,799	\$0	\$0	\$23,000	\$774,443	\$2,266,242
2017	\$1,582,565	\$0	\$1,700,000	\$22,000	\$941,809	\$4,246,374
2018	\$1,585,000	\$0	\$0	\$21,000	\$883,997	\$2,489,997
2019	\$1,585,750	\$0	\$0	\$0	\$1,489,239	\$3,074,989
2020	\$1,585,238	\$0	\$0	\$0	\$1,266,804	\$2,852,042
2021-2025	\$7,800,620	\$0	\$0	\$0	\$5,740,782	\$13,541,402
2026-2030	\$6,651,698	\$0	\$0	\$0	\$5,156,130	\$11,807,827
2031-2035	\$3,681,718	\$0	\$0	\$0	\$3,670,137	\$7,351,854
2036-2038	\$2,021,250	\$0	\$0	\$0	\$1,467,989	\$3,489,239
<b>Total</b>	<b>\$27,962,637</b>	<b>\$0</b>	<b>\$1,700,000</b>	<b>\$66,000</b>	<b>\$21,391,329</b>	<b>\$51,119,966</b>

A. Bonds

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

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

In 2014, the City Council authorized a Limited General Obligation Bond Anticipation Note (BAN) for \$1,500,000. On December 3, 2014, the City executed a line of credit with Cashmere Valley Bank totaling \$1,200,000. The BAN line of credit interest rate is a variable rate tied to the LIBOR (London Interbank Offered Rate) and is calculated as 65% of the 3 month LIBOR rate plus 1.05%. The city paid off the draw of \$1,200,000 in July 2015 along with interest payments of \$6,475.23. The rate as of 12/31/2016 was 1.657%. The maturity date of the line of credit is December 1, 2017.

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

In 2016, the city council approved authorized a line of credit providing for the issuance and sale of a Water and Sewer Revenue Bond Anticipation Note with an aggregate principal amount not to exceed \$3,000,000. This line of credit was established to provide interim financing for the city's water and sewer capital improvements. The interest rate is Kitsap Bank's prime rate minus 2.25% and cannot be less than 1.25%. As of the end of 2016, the city had an outstanding draw on the line of credit of \$1,700,000, the interest rate was 1.75%. The maturity date of the line of credit is March 1, 2018. The line of credit will allow the City to pay construction invoices per contract terms while awaiting reimbursement from state and federal programs.

Proprietary Long Term Debt currently outstanding as of December 31, 2016 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	\$40,000
2016	Utility Capital Revenue Bond Anticipation Note Line of Credit for Water/ Sewer improvements	\$1,700,000	Prime rate minus 2.25% interest rate; cannot be less than 1.25%	3/1/2018	\$1,700,000
Total					\$1,740,000

General Obligation Debt currently outstanding as of December 31, 2016 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	\$3,550,000
2012	Limited G.O. Bonds for refunding of 1999 Bonds, a portion of the 2002 G.O. Bonds, and a portion of the 2005 G.O. Bonds	\$5,530,000	.50 - 4.25%	12/1/2025	\$3,635,000
2014	Limited G.O. Bond Anticipation Note (Line of Credit) for capital improvements at the Mountain View campus and other general capital project costs	\$1,500,000	Variable rate tied to Libor index (65% of 3 month Libor plus 1.05%, rate as of 12/31/2015 - 1.267133%	12/1/2017	\$0
2015	Voted Unlimited G.O. Bonds for energy retrofits and capital improvements at the Mountain View campus and other general capital projects	\$3,385,000	2.0% - 4.0%	12/1/2031	\$3,385,000
<b>Total</b>					<b>\$18,070,000</b>

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

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

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

The 2012 DWSRF, 2013 PWTF, 2014 DRWSF, and 2015 DWSRF Loans have not drawn down the full loan amount available; the debt outstanding reflects current drawdowns less any principal payments.

Loan draws for the 2012 PWTF, and 2013 PWTF loans in the amounts of \$1,790,742, \$161,386, and \$534,708 respectively were authorized on 12/31/2015 but were not receipted until 1/5/16. Therefore, Schedule 9 of the City's annual report does not include these draws in 2016, but they are reflected on Schedule 01 as cash receipts. The city was obligated to repay the loan fees as of December 31, 2015 even though the receipts were not received until January 2016.

As of December 31, 2016, the long-term debt payable for PWTF and SRF loans consisted of the following:

<b>PUBLIC WORKS AND STATE REVOLVING FUND LOAN SCHEDULE</b>					
<b>Issue Year</b>	<b>Purpose</b>	<b>Original Issue</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Debt Outstanding</b>
1998	<u>PWTF Loan:</u> CT Pipeline Tri-Area Water Storage, Tri-Area Well Upgrades	\$2,172,055	1.00%	7/1/2018	\$89,436
1999	<u>PWTF Loan:</u> Gaines Street Lift Station; San Juan Street Trunk Line	\$1,434,365	1.00%	7/1/2019	\$178,784
2001	<u>PWTF Loan:</u> Wastewater Treatment Outfall Expansion; Trunk Sewer Line Replacement	\$1,153,350	0.50%	7/1/2021	\$276,381
2002	<u>PWTF Loan:</u> Morgan Hill Water System Improvements	\$1,263,453	0.50%	7/1/2022	\$400,211
2005	<u>SRF Loan:</u> Dept of Ecology Loan: Wastewater Conveyance Storm and Sewer Separation; Gains Street Lift Station Phase II; Trunk Sewer Line Replacement	\$856,803	1.50%	10/31/2023	\$382,473
2012	<u>PWTF Loan:</u> City Lake Repair	\$1,000,000	0.50%	6/1/2031	\$789,474
2012	<u>PWTF Loan:</u> Mandated LT2 Water Treatment Facility	\$1,896,000	0.50%	6/1/2031	\$1,678,820
2012	<u>DWSRF Loan:</u> LT2 Federally Mandated Water Treatment Facility	\$3,071,521	1.50%	10/1/2036	\$3,071,521
2013	<u>PWTF Loan:</u> 5 MG Reservoir Replacement	\$1,236,442	0.50%	6/1/2032	\$1,177,584
2013	<u>PWTF Loan:</u> UV Disinfection	\$2,315,082	0.50%	6/1/2032	\$2,257,661
2014	<u>DWSRF Loan:</u> Replacement for Primary 5MG Reservoir with Booste	\$4,542,646	1.00%	10/1/2038	\$4,363,689
2015	<u>DWSRF Loan:</u> Mandated LT2 Water Treatment Facility	\$4,240,773	1.00%	10/1/2038	\$4,240,773
<b>Total</b>					<b>\$18,906,809</b>

## **NOTE 5 – PENSION PLANS**

### **A. State Sponsored Plans**

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

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2016 (the measurement date of the plans), the city's proportionate share of the collective *net pension liabilities*, as reported on Schedule 09, and the city's proportionate share of the collective *net pension assets* was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.000000%	\$0.00
PERS 1 UAAL	0.039986%	\$2,147,436.53
PERS 2 / 3	0.051237%	\$2,579,742.47
<i>Total Net Pension Liability (Sch 09)</i>		\$4,727,179.01
LEOFF 1	0.011821%	-\$121,790.11
LEOFF 2	0.038608%	-\$224,555.71
<i>Net pension Assets</i>		-\$346,345.82

#### LEOFF Plan 1

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

#### LEOFF Plan 2

The city also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendation of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

#### B. Local Government Pension Plans

The City of Port Townsend is also the administrator of a pension retirement system called Firemen's Pension. The system is shown as a trust fund in the financial statements of the City of Port Townsend. As of December 31, 2016, there were a total of three individuals covered and drawing benefits under this system. None of these individuals were employed by the City in 2016.

As of December 31, 2016, the market value of assets was \$226,297.

### **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 to providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sub-limits. The Board of Directors determines the limits and terms of coverage annually.

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

In-house services include risk management consultation, loss control field services, and claims

and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

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

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

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

#### **NOTE 7 – RESTRICTED BOND FUNDS**

In accordance with bond ordinances and certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service, and other special reserve requirements. As of December 31, 2016, the City has no restricted bond funds.

#### **NOTE 8 – CONTINGENCIES AND LITIGATION**

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

#### **NOTE 9 – INTERFUND LOANS**

In November 2015, the City Council authorized an interfund loan from the Transmission Line Replacement Fund to the Street Capital Fund to provide the matching funds necessary for grants from the Transportation Improvement Board (TIB), Washington State Department of Transportation Surface Transportation Program (WSDOT STP), and Community Economic Revitalization Board (CERB). Loan financing of \$320,000 was for grant matching funds for the Howard Street Extension Project and the construction of Landes Street & Sheridan Street sidewalk projects. In the same resolution, the City Council authorized an inter fund loan in the amount of \$180,000 from the Transmission Line Replacement Fund to the General Capital Fund for financing energy savings improvements, equipment and software for various city buildings. These loans were scheduled to be repaid by January 31, 2018 but were paid off on March 31, 2017 as part of the advance refunding/refinancing of the 2008 Limited General Obligation Bonds (see Note 16 Subsequent Events).

<b>Loan Reference</b>	<b>Borrowing Fund</b>	<b>Lending Fund</b>	<b>Balance 1/1/16</b>	<b>2016 Repayments</b>	<b>New Loans</b>	<b>Balance 12/31/2016</b>
Landes & Sheridan Street Sidewalks	Street Capital (305)	Transmission Line (417)	\$205,000	\$0	\$0	\$205,000
Howard Street Extension	Street Capital (305)	Transmission Line (417)	\$115,000	\$0	\$0	\$115,000
Honeywell Energy Project	General Capital (301)	Transmission Line (417)	\$180,000	\$0	\$0	\$180,000
		<b>TOTAL</b>	<b>\$500,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$500,000</b>

**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 committed to pay the District a total of \$392,081 (which includes interest) for the fire engine. The city made its final payment on May 6, 2016. The payment schedule was as follows:

EJFR PAYMENT SCHEDULE			
PAYMENT DATE	INTEREST	PRINCIPAL	TOTAL
5/15/2013	\$11,320	\$0	\$11,320
5/30/2014	\$11,320	\$0	\$11,320
5/15/2015	\$9,883	\$177,199	\$187,082
5/6/2016	\$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, 2016, the fund had a balance of \$24,732 as compared to the prior year ending Fund balance of \$24,667.

**NOTE 12 – MANAGEMENT FUNDS**

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

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

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

**NOTE 13 – POST EMPLOYMENT BENEFITS**

The City of Port Townsend has a commitment to pay for post-employment benefits for employees that belong to LEOFF1 retirement system. These benefits include medical insurance premiums, out-of-pocket medical costs, and dental and vision care. Six police retirees and three Fire/EMS retirees and/or spouses received these benefits during the year and \$43,218 was paid out for those benefits.

**NOTE 14 – CONSTRUCTION COMMITMENT**

The City of Port Townsend has four active construction projects as of December 31, 2016. Total construction commitment as of the end of the year totaled \$2,090,341. A summary table of those commitments is below:

TABLE OF CONSTRUCTION COMMITMENTS - 2016					
PROJECT	CONTRACT OR	PROJECT PHASE	CONTRACT AMOUNT	PAID TO DATE	REMAINING CONTRACT
Water Treatment Phase II	HDR Engineering	Design	2,495,231	2,477,790	17,441
Water Treatment Phase II	Evoqua	Equipment Purchase	1,627,511	1,297,986	329,525
Big Quill Diversion	HDR Engineering	Design	206,341	204,406	1,935
Water Treatment Facility & 5 MG Reservoir	Steller J	Construction	13,207,135	11,900,908	1,306,227
5 MG Reservoir	HDR Engineering	Construction	594,624	582,092	12,532
Howard Street Extension	Shea Carr Jewell	Design	300,197	167,549	132,648
Visitor Center	Shea Carr Jewell	Design	29,904	27,551	2,353
Water Street Overlay	Shea Carr Jewell	Design	367,127	91,819	275,308
7th Street	Shea Carr Jewell	Design	14,889	2,517	12,372
		<b>TOTAL</b>	<b>\$18,842,959</b>	<b>\$16,752,618</b>	<b>\$2,090,341</b>

**NOTE 15 – PRIOR YEAR ADJUSTMENTS**

There was an immaterial fund balance adjustment of \$13 to the Water / Sewer fund.

**NOTE 16 – SUBSEQUENT EVENTS**

On March 20, 2017, the City Council ratified Ordinance 3165 Relating to Contracting Indebtedness, providing for the sale and Delivery of not to exceed \$12,00,000 General Obligation and Refunding Bonds (originally adopted February 6, 2017). The proceeds of these bonds are to be used to refund the 2008 Limited General Obligation Bonds and to fund new capital projects. The bonds were ultimately issued on March 8, 2017 in two series. Series 2017 A (tax exempt bonds totaling \$9,155,000) and series 2017 B (taxable bonds totaling \$1,105,000) were issued with the All-In Total Interest Cost of the bonds (including issuance costs) of 3.29%. The net present value of the savings related to refinancing the 2008 bonds with the 2017 A series bonds was \$980,000.

On April 20, 2017, the City Council authorized resolution 17-019 related to Affordable Housing at the City's Cherry Street Properties. This resolution also authorized the City Manager to negotiate and

execute an agreement with Homeward Bound (doing business as Olympic Housing Trust) and further authorized a loan to this non-profit organization. The resolution authorized a line of credit not to exceed \$250,000 to Homeward Bound to expedite the purchase, move and delivery of a four-plex building that could be placed on the City's Cherry Street property. The line of credit between the City and Homeward Bound will allow the organization to obtain the afore mentioned building while working to secure permanent institutional and private funding for the project. The line of credit matures on December 26, 2017 and carries a 2.5% interest rate.

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

#### **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 can remove Board members by resolution. The Authority maintains independent financial reports. Financial reports are provided annually to the City Manager and City Council and an independent audit is required annually.

In 2016, the City provided \$40,000 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, 2016**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	2008 Bond	12/1/2038	7,500,000	-	-	7,500,000
251.11	2010 Bond	12/1/2030	3,740,000	-	190,000	3,550,000
251.11	2012 Refunding Bond	12/1/2025	4,110,000	-	475,000	3,635,000
263.61	2014 BAN Line of Credit	12/1/2017	-	-	-	-
251.22	2015 Bond	12/1/2031	3,385,000	-	-	3,385,000
263.83	EJFR Equipment Loan	5/31/2016	179,744	-	179,744	-
<b>Total General Obligation Debt/Liabilities:</b>			<b>18,914,744</b>	<b>-</b>	<b>844,744</b>	<b>18,070,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.92	2016 Utility Line of Credit	3/1/2018	-	1,700,000	-	1,700,000
264.30	Net Pension Liability		3,782,503	944,676	-	4,727,179
252.11	1978 Water Revenue Bond	3/1/2018	60,000	-	20,000	40,000
263.88	1998 PWTF Loan Water	7/1/2018	134,154	-	44,718	89,436
263.88	1999 PWTF Loan Sewer	7/1/2019	238,379	-	59,595	178,784
263.88	2001 PWTF Loan Sewer	7/1/2021	331,658	-	55,277	276,381
263.88	2002 PWTF Loan Water	7/1/2022	466,913	-	66,702	400,211
263.82	2002 DOE Wastewater Loan	10/31/2023	427,146	-	44,673	382,473
263.88	2012 PWTF Loan City Lake	6/1/2031	842,106	-	52,632	789,474
263.88	2012 PWTF Loan LT2	6/1/2031	1,790,742	-	111,922	1,678,820
263.82	2012 DWSRF LT2	10/1/2036	1,475,789	1,595,732	-	3,071,521
263.88	2013 PWTF Loan 5MG Reservoir	6/1/2032	590,650	642,222	55,288	1,177,584
263.88	2013 PWTF Loan UV Disinfection	6/1/2032	358,493	1,956,589	57,421	2,257,661
263.82	2014 DWSRF Loan 5MG Reservoir	10/1/2038	68,277	4,474,368	178,956	4,363,689
263.82	2015 DWSRF Loan LT2	10/1/2038	-	4,240,773	-	4,240,773
259.12	Compensated Absences		439,038	506,291	489,785	455,544
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>11,005,848</b>	<b>16,060,651</b>	<b>1,236,969</b>	<b>25,829,530</b>
<b>Total Liabilities:</b>			<b>29,920,592</b>	<b>16,060,651</b>	<b>2,081,713</b>	<b>43,899,530</b>

**City of Port Townsend  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients
Violence Against Women Office, Department Of Justice (via Washington State Department of Commerce)	Violence Against Women Formula Grants	16.588	F-15-31103-017	1,864	-	1,864	- 1, 2, 3
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPU-7625 (001)	425,605	-	425,605	- 1, 2, 3
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-7360 (001)	4,708	-	4,708	- 1, 2, 3, 4
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-7618 (001)	11,806	-	11,806	- 1, 2, 3, 4
<b>Total Highway Planning and Construction Cluster:</b>				<b>442,119</b>	<b>-</b>	<b>442,119</b>	<b>-</b>
<b>Highway Safety Cluster</b>							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Association of Sherriffs & Police Chiefs)	State and Community Highway Safety	20.600	Traffic Safety Grant	13,424	-	13,424	- 1, 2, 3
<b>Total Highway Safety Cluster:</b>				<b>13,424</b>	<b>-</b>	<b>13,424</b>	<b>-</b>
<b>Drinking Water State Revolving Fund Cluster</b>							

The accompanying notes are an integral part of this schedule.

**City of Port Townsend**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2016**

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
					From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients
	Office Of Water, Environmental Protection Agency (via Washington State Department of Health)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS-99083909-1	1,541	-	1,541	-
	Office Of Water, Environmental Protection Agency (via Washington State Department of Commerce, Public Works Board Loan)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM12-952092	932,127	-	932,127	-
	Office Of Water, Environmental Protection Agency (via Washington State Department of Commerce, Public Works Board Loan)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM15-952-034	4,655,144	-	4,655,144	-
	Office Of Water, Environmental Protection Agency (via Washington State Department of Commerce, Public Works Board Loan)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM15-952-036	4,240,773	-	4,240,773	-
<b>Total Drinking Water State Revolving Fund Cluster:</b>					<b>9,829,585</b>	<b>-</b>	<b>9,829,585</b>	<b>-</b>
	Federal Emergency Management Agency (fema), Department Of Homeland Security (via Washington State Military Department)	Pre-Disaster Mitigation	97.047	E16-091	28,009	-	28,009	-
<b>Total Federal Awards Expended:</b>					<b>10,315,000</b>	<b>-</b>	<b>10,315,000</b>	<b>-</b>

The accompanying notes are an integral part of this schedule.

## City of Port Townsend

### Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

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 as prescribed by the Washington State statutes and the State Auditor's Budgeting, Accounting and Reporting System (BARS).

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the local program costs. Entire program costs, including the City of Port Townsend's portion, are more than shown. Such expenditures are recognized following the compliance requirements contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

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

Note 4 – Prior Period Adjustments

The City of Port Townsend received three federal funding receipts from WA State Department of Transportation for Federal Highway Planning and Construction Programs granted in Fiscal Year 2016 that represented expenditures incurred in Fiscal Year 2015, and were not reported on the FY 2015 Schedule of Expenditures of Federal Awards (Schedule 16). Because the FY2015 Annual Report was issued a final audit report prior to our knowledge of these receipts, omissions are being reported on the FY2016 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.

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

Contact information for the State Auditor's Office	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>