



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements and Federal Single Audit Report

## City of Port Orchard

For the period January 1, 2020 through December 31, 2020

*Published October 28, 2021*

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

October 28, 2021

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

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

Please find attached our report on the City of Port Orchard'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

***Americans with Disabilities***

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## City of Port Orchard January 1, 2020 through December 31, 2020

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

The results of our audit of the City of Port Orchard 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 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	Drinking Water State Revolving Fund Cluster – 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

### 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 Orchard January 1, 2020 through December 31, 2020**

Mayor and City Council  
City of Port Orchard  
Port Orchard, 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 Orchard, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 19, 2021.

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

As discussed in Note 11 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy, State Auditor

Olympia, WA

October 19, 2021



## INDEPENDENT AUDITOR'S REPORT

### Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

#### City of Port Orchard January 1, 2020 through December 31, 2020

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

### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Port Orchard, 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, 2020. 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, 2020.

## **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

October 19, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### City of Port Orchard January 1, 2020 through December 31, 2020

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

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Port Orchard, for the year ended December 31, 2020, 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 state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 Orchard has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Port Orchard, and its changes in cash and investments, for the year ended December 31, 2020, 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 Orchard, as of December 31, 2020, or the changes in financial position or cash flows thereof 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.

### **Matters of Emphasis**

As discussed in Note 11 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is 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 October 19, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

October 19, 2021

## **FINANCIAL SECTION**

### **City of Port Orchard January 1, 2020 through December 31, 2020**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2020  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2020  
Notes to Financial Statements – 2020

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2020  
Schedule of Expenditures of Federal Awards – 2020  
Notes to the Schedule of Expenditures of Federal Awards – 2020

**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>Total for All Funds (Memo Only)</b>	<b>001 Current Expense</b>	<b>103 Criminal Justice</b>	<b>104 Special Investigative Unit</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	34,425,125	7,481,965	350,277	94,804
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	12,553,078	11,103,720	264,344	-
320	Licenses and Permits	686,962	668,552	-	-
330	Intergovernmental Revenues	2,636,127	1,269,128	62,958	-
340	Charges for Goods and Services	12,895,997	681,007	-	-
350	Fines and Penalties	213,873	170,978	-	2,795
360	Miscellaneous Revenues	2,303,658	275,423	2,817	2,010
Total Revenues:		31,289,695	14,168,808	330,119	4,805
<b>Expenditures</b>					
510	General Government	3,175,242	3,175,242	-	-
520	Public Safety	4,858,234	4,553,635	302,787	1,812
530	Utilities	7,316,720	-	-	-
540	Transportation	1,680,151	1,328,421	-	-
550	Natural/Economic Environment	1,195,897	1,152,702	-	-
560	Social Services	48,287	48,287	-	-
570	Culture and Recreation	762,288	762,288	-	-
Total Expenditures:		19,036,819	11,020,575	302,787	1,812
Excess (Deficiency) Revenues over Expenditures:		12,252,876	3,148,233	27,332	2,993
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	1,697,545	-	-	-
397	Transfers-In	597,862	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	1,015,829	39,117	-	-
Total Other Increases in Fund Resources:		3,311,236	39,117	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	9,820,077	78,208	-	-
591-593, 599	Debt Service	499,946	-	-	-
597	Transfers-Out	597,862	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	957,547	25,263	-	-
Total Other Decreases in Fund Resources:		11,875,432	103,471	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>3,688,680</b>	<b>3,083,879</b>	<b>27,332</b>	<b>2,993</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	6,997,419	41,249	377,608	85,075
50841	Committed	118,202	118,202	-	-
50851	Assigned	22,071,083	1,479,291	-	12,722
50891	Unassigned	8,927,097	8,927,097	-	-
<b>Total Ending Cash and Investments</b>		<b>38,113,801</b>	<b>10,565,839</b>	<b>377,608</b>	<b>97,797</b>

The accompanying notes are an integral part of this statement.



**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>107 Community Events</b>	<b>108 Paths &amp; Trails</b>	<b>111 Impact Mitigation Fee</b>	<b>206 Bond Redemption Fund</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	151,872	9,918	1,760,925	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	102,138	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	1,113	-	-
340	Charges for Goods and Services	-	-	881,484	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,186	65	15,612	-
Total Revenues:		103,324	1,178	897,096	-
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	47,310	-
550	Natural/Economic Environment	43,195	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		43,195	-	47,310	-
Excess (Deficiency) Revenues over Expenditures:		60,129	1,178	849,786	-
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	298,006
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	298,006
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	298,006
597	Transfers-Out	-	-	299,245	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	299,245	298,006
<b>Increase (Decrease) in Cash and Investments:</b>		<b>60,129</b>	<b>1,178</b>	<b>550,541</b>	<b>-</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	212,002	11,096	2,311,466	-
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>212,002</b>	<b>11,096</b>	<b>2,311,466</b>	<b>-</b>

**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>302 Capital Construction</b>	<b>304 Street Capital Projects</b>	<b>309 Real Estate Excise Tax</b>	<b>411 Water Utility</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	301,091	2,467,946	2,456,557	4,664,534
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	1,082,876	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	454,399	-	7,857
340	Charges for Goods and Services	-	-	-	3,374,102
350	Fines and Penalties	-	-	-	10,430
360	Miscellaneous Revenues	16,103	15,043	25,776	760,127
Total Revenues:		16,103	469,442	1,108,652	4,152,516
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	2,283,149
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	2,283,149
Excess (Deficiency) Revenues over Expenditures:		16,103	469,442	1,108,652	1,869,367
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	1,697,545
397	Transfers-In	42,473	257,383	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	14,649
Total Other Increases in Fund Resources:		42,473	257,383	-	1,712,194
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	120,960	1,462,256	-	3,439,669
591-593, 599	Debt Service	-	-	-	24,950
597	Transfers-Out	-	-	298,617	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	2,400
Total Other Decreases in Fund Resources:		120,960	1,462,256	298,617	3,467,019
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(62,384)</b>	<b>(735,431)</b>	<b>810,035</b>	<b>114,542</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	15,000	677,331	3,266,592	-
50841	Committed	-	-	-	-
50851	Assigned	223,707	1,055,184	-	4,779,078
50891	Unassigned	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>238,707</b>	<b>1,732,515</b>	<b>3,266,592</b>	<b>4,779,078</b>

**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>421 Storm Drainage Utility</b>	<b>431 Sewer Utility</b>	<b>500 Equipment Rental and Revolving</b>
<b>Beginning Cash and Investments</b>				
308	Beginning Cash and Investments	2,327,811	8,507,114	3,850,311
388 / 588	Net Adjustments	-	-	-
<b>Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	18,410	-	-
330	Intergovernmental Revenues	48,956	791,716	-
340	Charges for Goods and Services	1,749,157	5,489,479	720,768
350	Fines and Penalties	10,029	19,641	-
360	Miscellaneous Revenues	14,644	1,145,048	29,804
Total Revenues:		1,841,196	7,445,884	750,572
<b>Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	1,154,220	3,879,351	-
540	Transportation	-	-	304,420
550	Natural/Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		1,154,220	3,879,351	304,420
Excess (Deficiency) Revenues over Expenditures:		686,976	3,566,533	446,152
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	9,180	939,153	13,730
Total Other Increases in Fund Resources:		9,180	939,153	13,730
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	535,762	3,366,260	816,962
591-593, 599	Debt Service	176,990	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	-	929,884	-
Total Other Decreases in Fund Resources:		712,752	4,296,144	816,962
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(16,596)</b>	<b>209,542</b>	<b>(357,080)</b>
<b>Ending Cash and Investments</b>				
50821	Nonspendable	-	-	-
50831	Restricted	-	-	-
50841	Committed	-	-	-
50851	Assigned	2,311,214	8,716,657	3,493,230
50891	Unassigned	-	-	-
<b>Total Ending Cash and Investments</b>		<b>2,311,214</b>	<b>8,716,657</b>	<b>3,493,230</b>

The accompanying notes are an integral part of this statement.

**City of Port Orchard**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<u>Custodial</u>
308	Beginning Cash and Investments	73
388 & 588	Net Adjustments	-
310-390	Additions	120,059
510-590	Deductions	120,100
	Net Increase (Decrease) in Cash and Investments:	(41)
508	Ending Cash and Investments	34

*The accompanying notes are an integral part of this statement.*

**Note 1-Summary of Significant Accounting Policies**

The City of Port Orchard was incorporated on September 1, 1890 and operates under the laws of the state of Washington applicable to a city. The City is a general-purpose local government and provides public safety, street improvement, park and recreation, and general administrative services. In addition, the City owns and operates a water, sewer, and storm drainage system.

The City 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 presented using classifications that are similar to the ending balance classification in GAAP.

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

**General Fund**

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

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Debt Service Funds

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

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government 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.

Custodial Funds

These funds are used to account assets that the government 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.

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.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

C. Cash and Investments

See Note 3, Deposits and Investments.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours at year end and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours at year end and for all employees except LEOFF II employees upon separation or retirement employees do not receive payment for unused sick leave. LEOFF II employees' (excluding management) sick leave may be accumulated up to 1040 hours and up to 400 hours is payable upon separation or retirement to the employee's respective medical health retirement/voluntary employee's beneficiary association account (HRA/VEBA). LEOFF II employees' (excluding management) vacation leave may be accumulated up to 320 hours and up to 240 hours is payable upon separation or retirement. LEOFF II employees (excluding management) earn 120 hours holiday leave annually and may carry over 96 hours at year end. Holiday leave is payable upon separation or retirement up to 96 hours. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5, Long-term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance. When expenditures that meet restrictions are incurred, the City intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$7,115,621.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

<b>Cash &amp; Investments</b>	<b>Purpose</b>	<b>Amount</b>
Restricted	Affordable Housing	\$ 41,249
Restricted	Criminal Justice	\$ 377,608
Restricted	Law Enforcement Investigations	\$ 85,075
Restricted	Tourism	\$ 212,002
Restricted	Paths & Trails	\$ 11,096
Restricted	Capital Projects	\$ 3,943,923
Restricted	Parks Projects	\$ 255,009
Restricted	Transportation Projects	\$ 944,142
Restricted	McCormick Woods Transportation Projects	\$ 785,820
Restricted	Old Clifton/Anderson Hill Intersection Improvements	\$ 326,495
Restricted	Etta Turner Memorial Park Improvements	\$ 15,000
Committed	Recreational Programs, Activities, & Capital Projects	\$ 118,202
	<b>Total</b>	<b>\$ 7,115,621.00</b>

## **Note 2 – Budget Compliance**

### **A. Budgets**

The City of Port Orchard adopts biennial appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for these funds lapse at the end of biennial period.

Biennial 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:



CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

<b>Fund</b>	<b>Final Appropriated Biennial Budget 2019- 2020</b>	<b>2019 Actual Expenditures</b>	<b>2020 Actual Expenditures</b>	<b>Variance</b>
Fund: 001 - Current Expense	\$ 25,486,196	\$ 10,663,852	\$ 10,976,373	\$ 3,845,971
Fund: 002 - City Street Fund	\$ 4,502,462	\$ 1,915,436	\$ 1,338,029	\$ 1,248,997
Fund: 003 - Stabilization Fund	\$ 2,100,000	\$ -	\$ -	\$ 2,100,000
Fund: 103 - Criminal Justice	\$ 1,003,101	\$ 491,209	\$ 302,787	\$ 209,104
Fund: 104 - Special Investigative Unit	\$ 85,461	\$ 3,025	\$ 1,812	\$ 80,624
Fund: 107 - Community Events	\$ 335,246	\$ 102,403	\$ 43,195	\$ 189,648
Fund: 108 - Paths & Trails	\$ 10,457	\$ -	\$ -	\$ 10,457
Fund: 109 - Real Estate Excise Tax	\$ 3,409,946	\$ 660,093	\$ 298,617	\$ 2,451,236
Fund: 111 - Impact Mitigation Fee	\$ 1,720,068	\$ 51,043	\$ 346,555	\$ 1,322,470
Fund: 206 - Bond Redemption Fund	\$ 760,365	\$ 462,357	\$ 298,006	\$ 2
Fund: 302 - Capital Construction	\$ 973,715	\$ 536,812	\$ 120,960	\$ 315,942
Fund: 303 - Cumulative Reserve for Equipment Replacement	\$ -	\$ -	\$ -	\$ -
Fund: 304 - Street Capital Projects	\$ 9,297,800	\$ 5,072,721	\$ 1,462,256	\$ 2,762,823
Fund: 401 - Water-Sewer Utilities	\$ 3,435,558	\$ 3,426,725	\$ -	\$ 8,833
Fund: 403 - Water-Sewer Cumulative Reserve	\$ 5,599,427	\$ 5,585,431	\$ -	\$ 13,996
Fund: 411 - Water Operating	\$ 8,145,079	\$ 2,773,561	\$ 2,688,931	\$ 2,682,587
Fund: 412 - Water Stabilization	\$ 390,000	\$ -	\$ -	\$ 390,000
Fund: 413 - Water Capital	\$ 8,845,444	\$ 2,003,216	\$ 3,452,959	\$ 3,389,269
Fund: 414 - Water Debt Service	\$ 130,128	\$ 56,728	\$ 24,950	\$ 48,450
Fund: 421 - Storm Drainage Utility	\$ 5,062,657	\$ 1,876,056	\$ 1,349,443	\$ 1,837,159
Fund: 422 - Storm Drainage Stabilization	\$ 175,200	\$ -	\$ -	\$ 175,200
Fund: 423 - Storm Drainage Capital Facil	\$ 1,260,000	\$ 636,125	\$ 527,729	\$ 96,146
Fund: 424 - Storm Drainage Debt Service	\$ 354,754	\$ 177,764	\$ 176,990	\$ -
Fund: 431 - Sewer Operating	\$ 12,143,379	\$ 4,505,088	\$ 5,109,750	\$ 2,528,541
Fund: 432 - Sewer Stabilization	\$ 606,700	\$ -	\$ -	\$ 606,700
Fund: 433 - Sewer Capital	\$ 10,670,483	\$ 676,498	\$ 3,350,903	\$ 6,643,082
Fund: 434 - Sewer Debt Service	\$ 30,128	\$ 30,128	\$ -	\$ -
Fund: 500 - Equipment Rental and Revolving	\$ 5,391,677	\$ 870,957	\$ 1,121,382	\$ 3,399,338

Fund 109 Real Estate Excise Tax (above) is reported on the financial statements as Fund 309 Real Estate Excise Tax. Due to a change in accounting principles the Waste Water Treatment Facility Fee Fund 632 was previously considered a Fiduciary Fund therefore was not budgeted and included in the table above. However, it is reported as part of the Sewer Utility on the Financial Statements and when included does not exceed the Sewer Utility Budget.

Budgeted amounts are authorized to be transferred between departments within any fund; 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's legislative body.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

**Note 3—Deposits and Investments**

Investments are reported at amortized cost. Deposits and investments by type at December 31, 2020 are as follows:

Type of Investment	City's Own Investments	Investment held by city as an agency for other local governments	Total
Cash on Deposit	\$ 792,893	\$ 34	\$ 792,927
Washington State Local Government Investment Pool (LGIP)	\$ 22,889,062		\$ 22,889,062
Kitsap County Investment Pool (KCIP)	\$ 14,431,846		\$ 14,431,846
<b>Total</b>	<b>\$ 38,113,801</b>	<b>\$ 34</b>	<b>\$ 38,113,835</b>

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

**Investments in the State Local Government Investment Pool (LGIP)**

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

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

**Investments in Kitsap County Investment Pool**

The city is an involuntary participant in the Kitsap County Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The city reports its investment in the pool at amortized cost, which is the same as the value of the pool per share. The KCIP does not impose liquidity fees or redemption gates on participant withdrawals.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or would not be able to recover

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

collateral securities that are in possession of an outside party. The city's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

#### Compensating Balances

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balance maintained during 2020 was approximately \$2,118,745.

#### **Note 4 - Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

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

The City's regular levy for the year 2020 was \$1.424737 per \$1,000 on an assessed valuation of \$2,072,895,477 for a total regular levy of \$2,953,332.

#### **Note 5 – Long-Term Debt**

##### Debt Service

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2020.

The debt service requirements for general obligation bonds, notes payable, and intergovernmental loans are as follows:

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

Due Date	Principal Amount	Interest Amount	Total Amount
2021	622,762	181,663	804,425
2022	628,034	102,355	730,389
2023	638,312	94,449	732,761
2024	643,597	86,326	729,923
2025	653,889	78,092	731,981
2026-2030	3,367,177	260,012	3,627,189
2031-2035	2,185,613	54,281	2,239,893
2036-2037	512,580	7,912	520,492
<b>Grand Total</b>	<b>9,251,966</b>	<b>865,090</b>	<b>10,117,056</b>

**Note 6 – OPEB Plans**

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2020, the plan had four members, all retirees. As of December 31, 2020, the city's total OPEB liability was \$2,195,157 as calculated using the alternative measurement method. For the year ended December 31, 2020 the City paid \$34,908 in benefits.

**Note 7 – Pension Plans**

A. State Sponsored Pension Plans

Substantially all City's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

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 that includes financial statements and required supplementary information for each plan. The DRS Comprehensive Annual Financial Report may be obtained by writing to:

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

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

At June 30, 2020, the City's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer		
	Contributions	Allocation %	Liability (Asset)
<b>PERS 1</b>	\$ 218,881	0.030201%	\$ 1,066,258
<b>PERS 2/3</b>	\$ 360,734	0.039158%	\$ 500,808
<b>LEOFF 1</b>	\$ -	0.006789%	\$ (128,211)
<b>LEOFF 2</b>	\$ 115,867	0.059230%	\$ (1,208,206)

**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 recommendations 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.

**Note 8 – Risk Management**

The City of Port Orchard is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2020, 103 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by National League of Cities Mutual Insurance Company (NLC MIC) for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Hallmark Specialty Insurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The reinsurance coverage is purchased through NLC MIC and excess property coverage is purchased through Lexington Insurance Company and CHUBB in 2020, AWC RMSA carried a retention of \$200,000, NLC MIC reinsures up to \$3 million, Lexington provides excess insurance up to \$50 million, and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

**Note 9. Joint Ventures**

In 1983, the City of Port Orchard and West Sound Utility District (previously the Karcher Creek Sewer District) amended an intergovernmental agreement relating to the construction and management of the secondary wastewater treatment facility. In April of 2014 the City and District signed an interlocal agreement for the management and operation of the joint wastewater treatment facility for an additional term of 25 years. This joint venture establishes a Sewer Advisory Committee (SAC) consisting of three representatives from each entity who prepare and monitor the Facility's budget. The District and the City share 50% ownership in the facility's total assets.

The Utility District is responsible for the daily operation of the facility. The participants pay their share of the expenses based on their portion of flow into the facility. The City and the District pay the joint venture an amount determined during the budget process to cover maintenance, operation, capital improvements and debt monthly. The current cost sharing is 49.5% City and 50.5% District and in 2020 the city paid \$1,649,982.

The City was the lead agency on the wastewater treatment plant expansion project, and is the signatory on two Public Works Trust Fund Loans for the Facility's expansion. In 2004, the city guaranteed two Public Works Trust Funds loans of the South Kitsap Water Reclamation Facility, a legally separate entity. In the event that the South Kitsap Water Reclamation Facility is unable to make a payment, City of Port Orchard will be required to meet the obligation. The total amount of outstanding debt subject of this guarantee at year end was \$2,545,190. Revenues of the facility are used to make debt service payments on the two loans. Annually, the facility makes a payment to the City to cover the debt service on these loans. The SAC recommended and the City Council and the District Commissioners approved using a portion of Wastewater Treatment Facility Fees collected by each jurisdiction to help make the annual debt payments. This cost sharing formula is 50% and in 2020 each entity paid \$200,000.

**Note 10. Other Disclosures**

At the year-end the city had a commitment for a development agreement with McCormick Land Company. The agreement allows for a reimbursement for construction of the Glenwood Connector Roadway and the Old Clifton/Feigley intersection for a total of \$2,200,296.37. The reimbursement is paid from the McCormick Woods Transportation Impact Fees collected by the city from development within the McCormick Urban Village pursuant to the development agreement. The reimbursement amount is set at 35% of the sub-area portion of the McCormick Woods



CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2020

Transportation Impact Fees collected by the city. In 2020, the city paid \$47,310.01. The amount outstanding as of December 31, 2020 is \$1,542,239.64.

**Note 11. COVID-19 Pandemic**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The City took decisive action early in the pandemic to postpone projects not yet underway and slow spending on operational budgetary items. These actions were taken in an early effort to prepare for a future reduction in revenues as the impacts of the pandemic had not yet materialized. The City took extra measures to keep employees working by embracing technology to comply with the restrictions of the Governor's Order and Proclamations. The City followed the Governor's Proclamations regarding the utility system including suspension of penalties on delinquent accounts and other collection processes which led to higher-than-normal delinquencies.

The city experienced an increase in unbudgeted expenditures related to COVID-19. The city received \$647,550 in CARES funding which provided significant funding to assist in preventing the spread of the virus, maintain compliance with the governor's emergency orders as well as assist small businesses combating the economic effects. As a result of the various efforts by the management team of the City, potential negative financial impacts continue to be monitored and mitigated.

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



**City of Port Orchard  
Schedule of Liabilities  
For the Year Ended December 31, 2020**

<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	G O Debt	12/1/2032	5,190,000	-	350,000	4,840,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>5,190,000</b>	<b>-</b>	<b>350,000</b>	<b>4,840,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		708,434	74,748	-	783,182
263.62	Notes Payable	12/31/2043	61,850	-	24,950	36,900
264.30	Pension Liabilities		1,573,012	-	5,945	1,567,067
263.82	Drinking Water State Revolving Fund Loan	10/1/2038	2,453,673	1,697,545	-	4,151,218
263.82	Water Quality Loan	1/2/2037	234,775	-	10,928	223,847
264.40	OPEB Liabilities		2,006,700	188,457	-	2,195,157
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>7,038,444</b>	<b>1,960,750</b>	<b>41,823</b>	<b>8,957,371</b>
<b>Total Liabilities:</b>			<b>12,228,444</b>	<b>1,960,750</b>	<b>391,823</b>	<b>13,797,371</b>

**City of Port Orchard**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2020**

	Expenditures					Passed through to Subrecipients	Note
	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass-Through Awards		
Highway Planning and Construction Cluster							
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPE-0166 (008) / LA-6165	40,112	-	40,112	-
Total Highway Planning and Construction Cluster:				40,112	-	40,112	-
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via WA State Dept of Commerce)	COVID 19 - Coronavirus Relief Fund	21.019	20-6541C-288	647,550	-	647,550	13,300
Drinking Water State Revolving Fund Cluster							
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via WA Dept of Health-Office of Drinking Water / Public Works Board / WA Department of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM13-952-185	1,952,195	-	1,952,195	-
Total Drinking Water State Revolving Fund Cluster:				1,952,195	-	1,952,195	-
U.S. COAST GUARD, HOMELAND SECURITY, DEPARTMENT OF (via WA State Parks & Recreation Commission)	Boating Safety Financial Assistance	97.012	N/A	10,208	-	10,208	-
Total Federal Awards Expended:				2,650,065	-	2,650,065	13,300

CITY OF PORT ORCHARD  
Notes to Schedule of Expenditures of Federal Awards  
January 1, 2020 through December 31, 2020

**NOTE 1. BASIS OF ACCOUNTING**

This Schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the cash basis of accounting, 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.

**NOTE 2. – Federal De Minimis Indirect Cost Rate**

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

**Note 3. – Federal Loans**

The City was approved by the Environmental Protection Agency (EPA) and the Public Works Trust Board (PWB) to receive a Drinking Water State Revolving Fund Loan to improve its drinking water system. The amount listed represents costs incurred during the year.

**NOTE 4. PROGRAM COSTS**

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

**GRANT DESCRIPTION:**

**US Department of Transportation- FHA / WSDOT - Bay Street Pedestrian Pathway**

This WSDOT project constructs a 1-mile long multi-use (bike/pedestrian) pathway between Kitsap Transits' Downtown Foot Ferry and the Annapolis Dock Foot Ferry facilities.

**COVID19-US Department of the Treasury /Wa State Dept of Commerce- Coronavirus Relief Fund for Local Governments**

To provide funds for costs incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).

**US EPA Drinking Water State Revolving Fund Loan/ WA State Dept of Health-Well 13**

Design and construct a well, including a new well house, site work, instrumentation, high efficiency variable speed well pump, piping, telemetry, controls, stand by generator, landscaping, parking, fencing security improvements and site restoration. This will provide a solution to declining yields from existing City wells reduces dependency on neighboring water systems, improves water quality and system reliability. This low interest federal loan is reimbursement based. The total cost of the well project (a maximum of six million dollars) becomes a 20-year loan with annual principle and interest payments beginning one year after the project completion date.

CITY OF PORT ORCHARD  
Notes to Schedule of Expenditures of Federal Awards  
January 1, 2020 through December 31, 2020

US Dept of Homeland Security / Washington State Parks Boating Safety

This grant allows funding for additional Police time, fuel and maintenance while utilizing our marine vessel to protect the waterfront areas that border the City.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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