



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Port Orchard

Kitsap County

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

Published September 14, 2017

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Office of the Washington State Auditor
Pat McCarthy

September 14, 2017

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Port Orchard
Kitsap 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 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 financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (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 identified 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 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>
20.205	Highway Planning and Construction

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

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2016-001.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

**City of Port Orchard
Kitsap County
January 1, 2016 through December 31, 2016**

2016-001 The City did not have proper internal controls in place to ensure compliance with federal procurement requirements.

CFDA Number and Title:	20.205 Highway Planning and Construction
Federal Grantor Name:	Department of Transportation Federal Highway Administration
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	LA-5855/6165 STPH-6610(004)/0166(008)
Questioned Cost Amount:	\$0.00

Description of Condition

The City spent \$764,911 in Highway Planning and Construction funds in 2016 for the Bay Street Pedestrian Path and Tremont Street Widening projects.

Federal grant regulations require recipients to follow the more restrictive of state or federal bid laws. Federal procurement requirements are more restrictive and require either sealed bids or a competitive proposals process be used for personal service contracts (e.g. consultants) over the simplified acquisition threshold, which was \$100,000 when these funds were spent.

The Public Works Department invited four companies from the Municipal Research and Services Center of Washington’s website to submit proposals for the personal service contract but did not publicize a request for proposals. In addition, the City did not consider price when evaluating the proposals. The City awarded a personal service contract totaling \$207,461 in 2013, of which \$53,142 was paid in 2016.

The City did not have a process in place to ensure personal services were procured properly. We consider this deficiency in internal controls to be a significant deficiency.

This issue was not identified or reported in the prior audit.

Cause of Condition

City staff did not understand federal requirements regarding procurement of personal services.

Effect of Condition and Questioned Costs

Without adhering to the requirements for competitive procurement, the City cannot be sure it selected the most qualified firm, allowed for full and open competition or solicited the best price. However, because the expenditures for the services were allowable under the federal program, we are not questioning these costs.

Recommendation

We recommend the City strengthen its internal controls to ensure contracts awarded with federal funds meet federal procurement requirements.

City's Response

Port Orchard wishes to thank the State Auditor's Office for the opportunity to respond to the finding that the City did not have proper internal controls in place to ensure compliance with federal procurement requirements. The City recognizes the seriousness of the finding and pledges its utmost efforts and resources in correcting the condition.

The City is an active participant in federal grant applications and when successful receives federal grants proceeds for transportation, law enforcement, water sewer and storm drainage utilities, and other worthwhile public benefits. The City awarded a service contract in 2013 under guidelines that resulted in federal grant expenditures identified as problematic.

The City began corrective action to improve procurement processes in December 2016 with the adoption of Ordinance No. 86-16 setting forth standards of conduct and written procedures in accordance with the Code of Federal Regulations.

Based upon language in Ordinance No. 86-16 the City conducted a 90 day multidepartment review and study of procurement requirements. Recognizing that former processes were deficient staff recommended changes to procurement policies and procedures to meet federal and state procurement regulations. The

City Council was presented and adopted Procurement Policies and Procedures dated March 31, 2017 superseding the City's incorrect 2013 procurement guidelines.

The new policies established guidelines to assure meeting Federal Code procurement requirements and the Revised Code of Washington. The policy identifies a procurement officer to ensure products and services are within bid specifications consistent with City policy, federal regulations, and state law.

Corrective action include written policy and procedures; continuing education and staff training; and the assignment of an employee as procurement officer with strong department support.

Auditor's Remarks

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

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States and Local Governments, and Nonprofit Organizations*, Subpart C, Section 300, was the requirement at the time of the procurement that established the auditees responsibility for its federal awards, including maintaining internal control to ensure compliance with laws, regulations, and the provisions of contracts or grant agreements.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments*, Section .36 was the requirement at the time of the procurement that established the auditees responsibilities for procuring personal service contracts, including publicizing and using price as a factor for non-A&E services.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

**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 Orchard
Kitsap County
January 1, 2016 through December 31, 2016**

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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Orchard, Kitsap 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 basic financial statements, and have issued our report thereon dated September 6, 2017.

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.



Pat McCarthy

State Auditor

Olympia, WA

September 6, 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 Orchard
Kitsap County
January 1, 2016 through December 31, 2016**

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, Kitsap 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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2016-001 that we consider to be a significant deficiency.

City's Response to Findings

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

Purpose of this Report

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



Pat McCarthy

State Auditor

Olympia, WA

September 6, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Port Orchard Kitsap County January 1, 2016 through December 31, 2016

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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Orchard, Kitsap 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 basic financial statements as listed on page 17.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Orchard, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

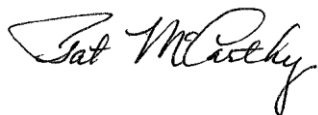
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 27, information on postemployment benefits other than pensions on page 80 and pension plan information on pages 81 through 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 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.



Pat McCarthy

State Auditor

Olympia, WA

September 6, 2017

FINANCIAL SECTION

**City of Port Orchard
Kitsap County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2016

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and
Actual – General Fund – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Fiduciary Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Medical Benefits Schedule of Funding Progress – 2016

Schedule of Proportionate Share of the Net Pension Liability PERS 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 – 2016

Schedule of Proportionate Share of the Net Pension Liability LEOFF 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability LEOFF 2 – 2016

Schedule of Employer Contributions PERS 1 – 2016

Schedule of Employer Contributions PERS 2/3 – 2016

Schedule of Employer Contributions LEOFF 1 – 2016

Schedule of Employer Contributions LEOFF 2 – 2016

Notes to Required Supplemental Information – Pension – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Port Orchard's discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended December 31, 2016. The information presented here should be read in conjunction with the financial statements and notes to the financial statements that follow.

FINANCIAL HIGHLIGHTS

- City of Port Orchard assets exceeded its liabilities at December 31, 2016 by \$92.4 million.
- Net investment in capital assets account for about 75 percent of this amount, with a value of \$69.0 million.
- Of the remaining net position, \$19.4 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction while \$4.0 million is restricted.
- The government's total net position shows an increase of \$5,100,095. The increase is due to reserve funds set aside per the City's financial policy and increases in proprietary funds charges for services.
- As of December 31, 2016, City of Port Orchard's governmental funds reported combined ending fund balances of 8.2 million. Approximately 29.2% of this amount is available for spending at the government's discretion. Unassigned fund balance is \$2,376,884, assigned fund balance is \$1,426,989, committed fund balance \$779,822 and restricted fund balance \$3,573,007.
- City of Port Orchard's total bonded debt decreased by \$195,714 during the fiscal year. At December 31, 2016 the total outstanding bonded debt was \$631,789.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the City of Port Orchard's basic financial statements. This information will assist users in interpreting the basic statements. We will also provide other supplementary information in addition to the basic financial statements. This financial discussion and analysis should assist the reader in understanding the City's financial condition.

Basic Financial Statements

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and, 3) notes to the financial statements. The financial section of this report also contains required supplementary information, in addition to the basic financial statements.

Government Wide Financial Statements

Government-wide financial statements provide readers with a broad overview of the City's finances in a manner similar to a private-sector business, distinguishing functions that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of the City include a full range of local government services provided to the public, such as law enforcement and public safety; road construction and maintenance; community planning and development; parks and recreation facilities; and other community services. In addition, other general government services are provided, such as, tax collection, and the issuance of permits and licenses. The business-type activities of the City include water, sewer and storm utility management and operation.

The Statement of Net Position presents information on all of the City's assets, deferred outflows, liabilities and deferred inflows, with the difference between them reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the City is improving or deteriorating. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The Statement of Activities presents information showing how the government's net position changed during 2016. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent each program relies on taxes for funding. All changes in net position are reported using the accrual basis of accounting, which requires that revenues be reported when they are earned and expenses are reported when the goods and services are received. Items such as uncollected taxes, unpaid vendor invoices for items received in 2016, and earned but unused vacation leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items was not received or distributed in 2016.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. All of the funds of the City fall into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental funds account for most, if not all, of a government's tax-supported activities. Proprietary funds account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds account for resources that are held by the government as an agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances present separate columns of financial data for the General Fund, and the Street Capital Projects Fund. These are considered major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental funds financial statements is narrower than that of government-wide financial statements accrual basis focus, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives readers a better understanding of the long-term impact of the government's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliation to the Governmental Activities column in the Government-Wide statements, facilitating this comparison.

The City maintains budgetary controls over its operating funds. Budgetary controls ensure compliance with legal provisions embodied in the annual appropriated budget. Governmental funds budgets are established in accordance with state law, and are adopted on a fund level. Personnel services are budgeted by position and by prorating the costs based on time allocation to the various funds. Budgetary variances are discussed later in this section.

Proprietary Funds

The City has two proprietary funds also known as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for its water and sewer utilities operation. The City also has a Storm Drainage Utility Fund. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the proprietary fund statement of net position to the business-type column on the government-wide statement of net position, the total net position agree, and therefore need no reconciliation.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, changes in net position may serve as a useful indicator of a government's financial position. The City of Port Orchard's net position total \$92,423,849 at December 31, 2016. The following is a condensed version of the government-wide statement of net position.

	Governmental Activities 2016	Governmental Activities 2015	Business- Type Activities 2016	Business-Type Activities 2015	Total Activities 2016	Total Activities 2015
Current and other assets	\$10,090,456	\$9,751,963	\$18,941,917	\$17,107,333	\$29,032,373	\$26,859,296
Capital assets	28,833,605	26,191,593	41,949,377	41,074,030	70,782,982	67,265,623
Total assets	38,924,061	35,943,556	60,891,294	58,181,363	99,815,355	94,124,919
Deferred Outflows related to Pension	654,269	337,598	229,760	126,489	884,029	464,087
Total deferred outflows of resources	654,269	337,598	229,760	126,489	884,029	464,087
Long-Term liabilities	3,974,559	3,575,915	2,652,735	2,202,389	6,627,294	5,778,304
Liabilities Payable from Restricted Assets	211,092	42,896			211,092	42,896
Other liabilities	662,277	371,407	710,515	418,802	1,372,792	790,209
Total liabilities	4,847,928	3,990,218	3,363,250	2,621,191	8,211,178	6,611,409
Deferred Inflows related to Pension	38,567	486,833	22,088	154,688	60,655	641,521
Deferred Amount on Refunding	3,274	4,540	428	593	3,702	5,133
Total deferred inflows of resources	41,841	491,373	22,516	155,281	64,357	646,654
Net Position						
Invested in capital assets						
net of related debt	28,369,122	25,582,972	40,664,855	40,010,762	69,033,977	65,593,734
Restricted	4,003,873	3,898,692	0	0	4,003,873	3,898,692
Unrestricted	2,315,566	2,317,899	17,070,433	15,513,429	19,385,999	17,831,328
Total net position	\$34,688,561	\$31,799,563	\$57,735,288	\$55,524,191	\$92,423,849	\$87,323,755

The largest portion of the City's net position (74.7 percent) reflects its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently the value of these assets are not available for future spending. Of the remaining balance, 4,003,873 is restricted and \$19,385,999 (unrestricted net position) represents the amount that may be used to meet the City's ongoing obligations.

At December 31, 2016, the City of Port Orchard reports positive balances in the three categories of net position, for the government as a whole, as well as for separate governmental and business-type activities.

Statement of Activities

In 2016, the City's total net position increased by \$5,100,094. The governmental net position increased \$2,888,998 and business-type activities increased \$2,211,096.

The following is a condensed version of the statement of activities for the City. The full statement is a tabular depiction of the relationship of revenues and expenses for the City's governmental activities and proprietary funds.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$1,587,381	\$1,627,597	\$7,846,400	\$6,633,891	\$9,433,781	\$8,261,488
Operating grants & contributions	768,998	685,457	0	0	768,998	685,457
Capital grants & contributions	2,463,124	549,371	1,166,173	2,819,342	3,629,297	3,368,713
General revenues:						
Property taxes	2,434,074	2,322,213	0	0	2,434,074	2,322,213
Sales taxes	4,845,731	4,414,271	0	0	4,845,731	4,414,271
Other taxes	2,494,952	2,412,655	0	0	2,494,952	2,412,655
Interest income	19,039	17,834	35,108	21,546	54,147	39,380
Gain on sale of capital assets	15,967	12,036			15,967	12,036
Other revenues	0	0	0	155	0	155
Total Revenues	14,629,266	12,041,434	9,047,681	9,474,934	23,676,947	21,516,368
Expenses:						
General government	2,084,703	1,870,390	0	0	2,084,703	1,870,390
Judicial	534,256	534,814	0	0	534,256	534,814
Public safety	5,223,526	4,776,780	0	0	5,223,526	4,776,780
Transportation	2,626,628	2,483,703	0	0	2,626,628	2,483,703
Social services	14,499	11,744	0	0	14,499	11,744
Economic development	724,681	601,980	0	0	724,681	601,980
Culture and recreation	510,384	451,587	0	0	510,384	451,587
Water - Sewer	0	0	5,695,362	5,491,666	5,695,362	5,491,666
Storm Drainage	0	0	1,141,223	949,537	1,141,223	949,537
Interest on long-term debt	21,591	26,328	0	0	21,591	26,328
Total Expense	11,740,268	10,757,326	6,836,585	6,441,203	18,576,853	17,198,529
Change in net position	2,888,998	1,284,108	2,211,096	3,033,731	5,100,094	4,317,839
Net Position Beginning	31,799,563	32,007,923	55,524,192	53,622,965	87,323,755	85,630,888
Changes in Accounting Principles	0	(1,492,468)	0	(1,132,505)	0	(2,624,973)
Net Position Ending	\$34,688,561	\$31,799,563	\$57,735,288	\$55,524,191	\$92,423,849	\$87,323,755

Governmental Activity Analysis

Total revenues in governmental activities increased by 21%. The City's tax revenues increased by \$625,618, 9% in 2016. The main sources of revenue came from retail sales and use tax and property taxes. Sales tax increased from the prior year by \$431,460, 10%. Property taxes experienced an increase of \$111,861, 6%. Charges for services decreased by \$40,216, -2%. Operating grants and contributions increased by \$83,541, 12%. Capital grants and contributions increased by \$1,913,753 due to infrastructure that was donated in 2016 as well as several grants received.

Total expenses in governmental activities increased by 9%. The City incurred increases in the following functions: General Government \$214,313, Public Safety \$446,746, Transportation \$142,925 and Economic Development \$122,701, Culture and Recreation \$58,797, Social Services \$2,755. While Judicial decreased by (\$558). Transportation had an increase in expenses for paving overlay project. Public Safety had an increase due to jail costs, and Economic development had an increase due to additional personnel costs. The net position associated with governmental activities increased by 2,888,988 due to capital grants & contributions.

Business-Type Activities Analysis

The Water-Sewer Utility experienced an increase in 2016 operating revenues of 11.8%, and a 3.7% increase in operating expenses. The Utility ended the year with an increase in net position of 1.7%. This was largely due to increased charges for services. The Storm Drainage Utility had an increase in operating revenues of 12.6%, and an increase in operating expenses of 20.4%. There was an overall increase in storm drainage net position of 13.7%. The Storm Drainage Utility's operating revenues increase significantly due to a rate increase for the utility as well as a grant. This contributed to the increase in net position also.

FINANCIAL ANALYSIS OF CITY FUNDS

Governmental Funds Analysis

The City uses fund accounting to ensure compliance with legal requirements and to assist in the budgeting and operations of the different activities of the City. The City has ten governmental funds that are categorized into four fund types. Each type has its unique purpose. The City Street Fund and Stabilization Fund are managerial funds and are reported in the General Fund. Two funds are classified as major funds for the purposes of this report, based on GASB criteria. They are the General Fund and the Street Capital Projects Fund.

The General Fund's fund balance increased by \$288,470. Revenues are higher and expenditures lower. The largest source of revenue is sales and use tax representing 43% of total revenues. The largest expenditure category is public safety, representing 45% of the General Fund activity.

The Capital Projects Fund had an increase in fund balance of 172,392. This was due to transfers from other funds for projects.

The Street Capital Projects Fund had a decrease in fund balance of (\$92,632). This was due to increased project costs.

The change in total governmental funds' fund balance was an overall increase of \$177,525.

Business-Type Fund Analysis

Proprietary funds are those funds that account for government operations where the intent is for the costs to be primarily paid for by user charges. Enterprise funds are those funds that provide services primarily to external users.

The Water-Sewer Fund had a total net position at year-end of \$45.9 million. This fund had operating income of \$166,282. The Water-Sewer fund had an increase in total net position of \$786,572 or 1.7%. This was largely due to increased charges for services. The Storm Drainage Utility Fund had an operating increase of \$499,237. The total net position at year-end was \$11.8 million. This was an increase in net position of 13.7% or \$1,424,524. The increase was due to a rate increase and also a grant.

2016 Capital Projects for Water-Sewer included the Well 9 and Well 10 projects and the purchase of equipment. Storm Drainage Utility completed construction of the Decant Facility.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Budget vs. Actual statement for the General Fund is required to be presented at the level adopted by the City. This results in not including the City Street and Stabilization Funds within this statement because these funds have their own adopted budgets. The City appropriates funds through an annual budget process while state law allows additional funds to be expended if authorized by an ordinance amending the original budget. Revenues ended the year ahead of the budget 4.7%. Sales taxes increased by \$319,618 and other taxes increased by \$30,637. Expenditures were 93% of the amended budget.

The final budget, when compared to the original budget, showed increases (decreases) in: General Government \$89,738, Public Safety \$183,993, Economic Development \$15,000, and Capital Expenditures \$56,512.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Port Orchard’s investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2016, amounts to \$70,782,982, (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, buildings, equipment, and infrastructure.

	Governmental Activities		Business Activities		Government Wide	
	1/1/2016	12/31/2016	1/1/2016	12/31/2016	1/1/2016	12/31/2016
Land	\$1,850,097	\$2,196,485	\$1,071,823	\$983,923	\$2,921,920	\$3,180,408
Intangible Assets	3,102,090	3,747,291	1,164,706	1,157,425	4,266,796	4,904,716
Construction in Progress	1,874,090	3,060,642	2,424,441	2,772,768	4,298,531	5,833,410
Buildings	5,110,915	5,722,863	3,471,994	4,432,285	8,582,909	10,155,148
Equipment	898,955	1,105,457	1,723,224	1,659,754	2,622,179	2,765,212
Infrastructure	13,355,447	13,000,866	31,217,842	30,943,222	44,573,289	43,944,087
	<u>\$26,191,594</u>	<u>\$28,833,605</u>	<u>\$41,074,030</u>	<u>\$41,949,377</u>	<u>\$67,265,624</u>	<u>\$70,782,982</u>

In governmental activities, Land increased due to a property purchase, Intangible Assets and Construction in Progress also increased due to developer donations, on-going projects and new projects. Buildings & Structures increased due to the completion of the Dekalb Pier. Machinery & Equipment increased in 2016 due to vehicle and equipment purchases in multiple departments and Other Improvements decreased due to depreciation.

In business activities Machinery & Equipment, Other Improvements and Intangible Assets all decreased due to depreciation. Land is reduced due to the sale of properties. Well 9 And Well 10 construction projects increased Construction in Progress. Buildings & Structures increased due to the completion of the Decant Facility

Additional information on the City of Port Orchard's capital assets can be found in Note 5 (capital assets) of this report.

Long-Term Debt

At December 31, 2016 the City of Port Orchard had total long-term debt outstanding of \$1,745,303. Of this amount, \$631,789 is general obligation bonds, \$168,250 is a note made with a private party, \$945,264 is Governmental Loans.

During 2016, the City of Port Orchard's net total long term debt increased by \$77,954. The Increase included a Drinking Water State Revolving Fund Loan, a Clean Water State Revolving Fund Loan, annual payments on the outstanding debt.

Additional information on the City's long-term debt can be found in Note 9, Long-Term Debt and Note 11, Changes in Long-Term Liabilities of the notes to the financial statement in this report.

Economic Factors

The state of Washington does not have a state personal income tax and therefore the state operates primarily using sales and use tax, ad valorem, and motor vehicle excise tax. The City relies on sales and use tax, property tax, and utility taxes and a limited array of permitted taxes, fees, and state and federal grants to support its governmental activities. The City does not impose a business and occupation tax.

City General Fund revenue collection experienced a 5.4% year-over-year increase. Sales and use tax represents a major revenue source for governmental funds and provides an economic measurement of the local economy. City sales and use tax collection increased year-over-year by 9.6%. The City views these increases as indicators of increased local economic activity, at an upwardly pace. The military and its federal employees continue to be a steady source of economic fuel for the economy with over 15,000 active military and nearly 18,000 civilians based in Kitsap County. In addition, over 500 prime and sub-contractors add to the benefits seen by this federal presence. The Puget Sound Naval Shipyard (PSNS) and Intermediate Maintenance Facility, located directly across Sinclair Islet and accessible by foot ferry, continues to increase its work force with an additional 926 employees in various shipyard trades. The increase at PSNS is considered a positive influence on the local economy.

Construction activity slowed down slightly in 2016 though this was related to a shortage of ready to build residential lots. The City saw 54 new housing starts in 2016, but more importantly saw 4 final plats recorded in 2016 and in the first part of 2017 to resupply the City's home builders. The city expects record or near record single family construction in the coming 18 months. In 2016, the city saw 3 commercial developments and has several more in the pipeline including a new (to replace the old) Ford Dealership. The City expects to see strong construction related growth for the foreseeable future.

The Office of Financial Management (OFM) reported Port Orchard's estimated 2016 population at 13,810. The City ranks 66 by population size of the 285 listed Washington municipalities.

The Washington State Economic and Revenue Council expects sales tax revenue and Real Estate Excise Tax collections to increase for Washington economies. The City Council continues to be proactive with other agencies lobbying the State to provide additional funding sources for City and area services.

The level of taxes, fees, and charges for services will have a bearing on the City's competitive ability to encourage retail, office, residential, and industrial development. The City places significant emphasis on encouraging economic development to attract family wage paying jobs, and as an incentive does not assess a business and occupation tax (B & O).

Requests for Information

This financial report is designed to provide a general overview of the City of Port Orchard's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the City Treasurer, City of Port Orchard, 216 Prospect Street, Port Orchard, WA, 98366.

CITY OF PORT ORCHARD
Statement of Net Position
December 31, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 5,233,616	\$ 8,831,064	\$ 14,064,680
Receivables (Net of Allowance for Uncollectable)			
Taxes Receivable	82,539	-	82,539
Accounts Receivable	473,571	1,228,267	1,701,838
Due from Other Governmental Units	1,514	270,315	271,829
Restricted Assets:			
Cash and Cash Equivalents	3,544,163	-	3,544,163
Receivables	35,751	-	35,751
Due from Other Governmental Units	288,436	-	288,436
Investment in Joint Venture	-	8,612,271	8,612,271
Net Pension Asset	430,866		430,866
Capital Assets not being depreciated	8,957,259	4,842,557	13,799,816
Capital Assets (Net of Accumulated Depreciation)	19,876,346	37,106,820	56,983,166
Total Assets	<u>38,924,061</u>	<u>60,891,294</u>	<u>99,815,355</u>
DEFERRED OUTFLOWS of RESOURCES			
Deferred Outflows related to Pensions	654,269	229,760	884,029
Total Deferred Outflows of Resources	<u>654,269</u>	<u>229,760</u>	<u>884,029</u>
LIABILITIES			
Accounts Payable	515,585	477,184	992,769
Contracts Payable	-	114,301	114,301
Deposits	250	5,550	5,800
Unearned Revenue	41,567	61,364	102,931
Other Accrued Liabilities	104,875	52,116	156,991
Liabilities Payable from Restricted Assets	211,092	-	211,092
Noncurrent Liabilities:			
Due within One Year	658,433	120,037	778,470
Due in More than One Year	1,076,674	1,250,147	2,326,821
Net Pension Liability	2,239,452	1,282,551	3,522,003
Total Liabilities	<u>4,847,928</u>	<u>3,363,250</u>	<u>8,211,178</u>
DEFERRED INFLOWS of RESOURCES			
Deferred Amount on Refunding	3,274	428	3,702
Deferred Inflows related to Pensions	38,567	22,088	60,655
Total Deferred Inflows of Resources	<u>41,841</u>	<u>22,516</u>	<u>64,357</u>
NET POSITION			
Net Investment in Capital Assets	28,369,122	40,664,855	69,033,977
Restricted for:			
Criminal Justice	469,915	-	469,915
Law Enforcement Investigative Funds	63,548	-	63,548
Tourism Promotion	84,574	-	84,574
Parks	235,584	-	235,584
McCormick Woods Park	39,110	-	39,110
Paths & Trails	5,663	-	5,663
Pensions	430,866	-	430,866
Vacation abutting water	7,500	-	7,500
Transportation	1,331,999	-	1,331,999
Capital (REET)	1,335,114	-	1,335,114
Unrestricted	2,315,566	17,070,433	19,385,999
Total Net Position	<u>\$ 34,688,561</u>	<u>\$ 57,735,288</u>	<u>\$ 92,423,849</u>

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD

Statement of Activities

Year Ended December 31, 2016

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					
	Expenses	Program Revenues			Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
PRIMARY GOVERNMENT						
Governmental Activities:						
General Government	\$ 2,084,703	\$ 268,472	\$ 164,209	\$ -	\$ (1,652,022)	\$ -
Judicial	534,256	226,807	15,477	-	(291,972)	(291,972)
Public Safety	5,223,526	301,686	276,837	-	(4,645,003)	(4,645,003)
Transportation	2,626,628	314,042	305,425	1,700,521	(306,640)	(306,640)
Social Services	14,499	-	-	-	(14,499)	(14,499)
Economic Development	724,681	398,067	-	-	(326,614)	(326,614)
Culture and Recreation	510,384	78,307	7,050	762,603	337,576	337,576
Interest on Long-Term Debt	21,591	-	-	-	(21,591)	(21,591)
TOTAL GOVERNMENTAL ACTIVITIES	11,740,268	1,587,381	768,998	2,463,124	(6,920,765)	-
Business-Type Activities:						
Water - Sewer	5,695,362	6,162,907	-	288,790	-	756,335
Storm Drainage	1,141,223	1,683,493	-	877,383	-	1,419,653
TOTAL BUSINESS-TYPE ACTIVITIES	6,836,585	7,846,400	-	1,166,173	-	2,175,988
Total Primary Government	\$ 18,576,853	\$ 9,433,781	\$ 768,998	\$ 3,629,296	(6,920,765)	2,175,988
General Revenues:						
Taxes:						
Property Taxes Levied for General Purposes					2,434,074	2,434,074
Other Taxes					810,297	810,297
Sales and Use Taxes					4,845,731	4,845,731
Business and Occupation Taxes					1,684,655	1,684,655
Gain on Sale of Capital Assets					15,967	15,967
Unrestricted Investment Earnings					19,039	35,108
Total General Revenues					9,809,763	9,844,871
Change in Net Position					2,888,998	5,100,094
Net Position - Beginning					31,799,563	87,323,755
Net Position - Ending					\$ 34,688,561	\$ 92,423,849

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ORCHARD
Governmental Funds
Balance Sheet
December 31, 2016

	General Fund	Capital Construction Fund	Street Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 4,586,849	\$ 261,985	\$ 455,457	\$ 3,473,488	\$ 8,777,779
Property Taxes Receivables (net)	82,539	-	-	-	82,539
Accounts Receivable	473,571	-	-	35,751	509,322
Due from Other Governmental Units	1,514	48,500	239,936	-	289,950
Total Assets	5,144,473	310,485	695,393	3,509,239	9,659,590
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Accounts Payable	442,537	75,184	177,044	31,912	726,677
Deposits Payable	250	-	-	-	250
Other Accrued Liabilities	101,320	-	-	2,136	103,456
Unearned Revenue	41,567	-	-	-	41,567
Total Liabilities	585,674	75,184	177,044	34,048	871,950
Deferred Inflows of Resources					
Unavailable Revenue-Property Taxes	76,806	-	-	-	76,806
Unavailable Revenue-Court	421,416	-	-	35,751	457,167
Unavailable Revenue-Miscellaneous	34,465	48,500	-	-	82,965
Grants Received in Advance	14,000	-	-	-	14,000
Total Deferred Inflows of Resources	546,687	48,500	-	35,751	630,938
Fund Balances:					
Restricted for:					
Criminal Justice	-	-	-	469,915	469,915
Law Enforcement	-	-	-	63,548	63,548
Tourism	-	-	-	84,574	84,574
Parks	-	-	-	235,584	235,584
McWds Parks	-	-	-	39,110	39,110
Paths & Trails	-	-	-	5,663	5,663
Vacation abutting water	7,500	-	-	-	7,500
Transportation	-	-	518,349	813,650	1,331,999
Capital Projects	-	-	-	1,335,114	1,335,114
Committed to:					
Recreation	110,053	-	-	-	110,053
Stabilization	669,769	-	-	-	669,769
Assigned to:					
Parks	71,616	-	-	-	71,616
City Hall	9,649	-	-	-	9,649
Street	766,641	-	-	-	766,641
Capital Projects	-	186,801	-	-	186,801
Capital Equipment Replacement	-	-	-	392,282	392,282
Unassigned	2,376,884	-	-	-	2,376,884
Total Fund Balances	4,012,112	186,801	518,349	3,439,440	\$ 8,156,702
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,144,473	\$ 310,485	\$ 695,393	\$ 3,509,239	

Amounts reported for governmental activities in the statement of net position are different because (See Note 2 also):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	28,833,605
Unavailable revenue to pay current year expenditures	630,938
Long-term liabilities that are not due and payable in the current period and are not reported in the funds	(3,979,252)
Net Pension Asset	430,866
Deferred Outflow related to Pensions	654,269
Deferred Inflow related to Pensions	(38,567)
Net position of governmental activities	<u>\$ 34,688,561</u>

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended December 31, 2016

	General Fund	Capital Construction Fund	Street Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$ 2,439,988	\$ -	\$ -	\$ -	\$ 2,439,988
Retail Sales and Use Taxes	4,536,118	-	-	309,613	4,845,731
Other Taxes	1,794,037	-	-	700,915	2,494,952
License and Permits	316,288	-	-	-	316,288
Intergovernmental	549,433	746,350	815,607	128,587	2,239,977
Charges for Services	496,105	-	-	-	496,105
Fines and Forfeits	220,199	-	-	4,730	224,929
Interest Earnings	45,142	711	2,263	22,412	70,528
Rents and Royalties	158,634	-	4,633	-	163,267
Planning & Development Contributors	-	-	-	307,653	307,653
Contributions/Donations	2,807	-	-	-	2,807
Miscellaneous	9,723	-	-	691	10,414
Total Revenues	10,568,474	747,061	822,503	1,474,601	13,612,639
Expenditures:					
Current					
General Government	1,962,901	-	-	-	1,962,901
Judicial	534,256	-	-	-	534,256
Public Safety	4,677,280	-	-	249,051	4,926,331
Transportation	1,851,914	-	-	33,799	1,885,713
Economic Development	724,681	-	-	-	724,681
Social Services	14,499	-	-	-	14,499
Culture and Recreation	327,286	-	-	78,141	405,427
Capitalized Expenditures	206,632	1,342,091	1,046,084	238,110	2,832,917
Debt Service					
Principal Retirement	-	-	-	142,350	142,350
Interest/Fiscal Charges	-	-	-	22,006	22,006
Total Expenditures	10,299,449	1,342,091	1,046,084	763,457	13,451,081
Excess (Deficiency) of Revenues Over (Under) Expenditures	269,025	(595,030)	(223,581)	711,144	161,558
Other Financing Sources (Uses)					
Sale of Capital Assets	6,968	-	-	-	6,968
Compensation for Loss/Impair Capital Assets	8,999	-	-	-	8,999
Transfers In	457,000	767,422	130,949	352,741	1,708,112
Transfers Out	(453,522)	-	-	(1,254,590)	(1,708,112)
Total Other Financing Sources and Uses	19,445	767,422	130,949	(901,849)	15,967
Net Change in Fund Balances	288,470	172,392	(92,632)	(190,705)	177,525
Fund Balance at Beginning of Year	3,723,642	14,409	610,981	3,630,145	7,979,177
Fund Balance at End of Year	\$ 4,012,112	\$ 186,801	\$ 518,349	\$ 3,439,440	\$ 8,156,702

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
 of Governmental Funds to the Statement of Activities
 Year Ended December 31, 2016

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

Net changes in fund balances - total governmental funds:	\$	177,525
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.		1,742,540
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) to decrease net position.		899,471
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		69,359
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		142,350
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(142,247)
Changes in Net Position (governmental activities)	<u>\$</u>	<u>2,888,998</u>

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Fiscal Year Ended December 31, 2016

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 1,205,377	\$ 1,205,377	\$ 1,205,336	\$ (41)
Sales and Use Taxes	4,216,500	4,216,500	4,536,118	319,618
Other Taxes	1,763,400	1,763,400	1,794,037	30,637
License and Permits	336,800	336,800	313,718	(23,082)
Intergovernmental	244,500	256,654	273,579	16,925
Charges for Services	462,100	462,100	482,517	20,417
Fines and Forfeits	207,000	207,000	220,171	13,171
Interest Earnings	28,900	28,900	37,953	9,053
Rents and Royalties	140,000	140,000	149,707	9,707
Contributions/Donations	1,500	1,500	2,307	807
Miscellaneous	-	-	9,485	9,485
Total Revenues	8,606,077	8,618,231	9,024,928	406,697
Expenditures:				
Current				
General Government	2,059,951	2,149,689	1,962,901	(186,788)
Judicial	595,000	595,000	534,256	(60,744)
Public Safety	4,793,777	4,977,777	4,677,280	(300,497)
Economic Development	768,893	783,893	724,681	(59,212)
Social Services	14,443	14,443	14,499	56
Culture and Recreation	391,382	391,382	327,286	(64,096)
Capitalized Expenditures	15,000	71,512	100,995	29,483
Intergovernmental Payments	-	-	-	-
Total Expenditures	8,638,446	8,983,696	8,341,898	(641,798)
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(32,369)	(365,465)	683,030	1,048,495
Other Financing Sources (Uses):				
Sale of Capital Assets	-	-	5,765	5,765
Compensation for Loss/Impair Capital Assets	-	-	8,999	8,999
Transfers In	8,000	8,000	-	(8,000)
Insurance Recoveries	-	-	-	-
Transfers Out	(427,300)	(490,800)	(440,522)	50,278
Total Other Financing Sources and Uses	(419,300)	(482,800)	(425,758)	57,042
Net Change in Fund Balance	(451,669)	(848,265)	257,272	1,105,537
Fund Balances at Beginning of Year	1,744,010	1,744,010	2,310,930	566,920
Fund Balances at End of Year	\$ 1,292,341	\$ 895,745	\$ 2,568,202	\$ 1,672,457
Adjustment to generally accepted accounting principles (GAAP) basis:				
City Street Fund			774,141	
Stabilization Fund			669,769	
Fund Balance - GAAP basis			\$ 4,012,112	

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
Proprietary Funds
Statement of Net Position
December 31, 2016

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Assets:			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 7,402,127	\$ 1,428,937	\$ 8,831,064
Receivables (net)			
Accounts	942,807	285,460	1,228,267
Due from Other Governmental Units	-	270,315	270,315
Total Current Assets	<u>8,344,934</u>	<u>1,984,712</u>	<u>10,329,646</u>
<i>Non Current Assets:</i>			
Investment in Joint Venture	8,612,271	-	8,612,271
Property, Plant and Equipment (Net)	31,438,223	10,511,154	41,949,377
Total Non Current Assets	<u>40,050,494</u>	<u>10,511,154</u>	<u>50,561,648</u>
Total Assets	<u>48,395,428</u>	<u>12,495,866</u>	<u>60,891,294</u>
<i>Deferred Outflows of Resources</i>			
Deferred Outflows related to Pension	154,553	75,207	229,760
Total Deferred Outflows of Resources	<u>154,553</u>	<u>75,207</u>	<u>229,760</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	355,182	122,002	477,184
Contracts Payable	114,301	-	114,301
Other Accrued Liabilities	21,931	11,593	33,524
Deposits	5,550	-	5,550
Accrued Interest Payable	18,377	215	18,592
Accrued Employee Benefits	42,174	22,321	64,495
Bonds, Notes, Loans Payable	55,542	-	55,542
Total Current Liabilities	<u>613,057</u>	<u>156,131</u>	<u>769,188</u>
<i>Non Current Liabilities:</i>			
Bonds, Notes and Loan Payable (Net)	1,065,944	162,608	1,228,552
Accrued Employee Benefits	14,121	7,474	21,595
Net Pension Liability	862,732	419,819	1,282,551
Unearned Revenues	61,364	-	61,364
Total Non Current Liabilities	<u>2,004,161</u>	<u>589,901</u>	<u>2,594,062</u>
Total Liabilities	<u>2,617,218</u>	<u>746,032</u>	<u>3,363,250</u>
Deferred Inflows of Resources			
Deferred Inflows related to Pensions	14,858	7,230	22,088
Deferred Amounts on Refunding	428	-	428
Total Deferred Inflows of Resources	<u>15,286</u>	<u>7,230</u>	<u>22,516</u>
<i>Net Position</i>			
Net Invested in Capital Assets	30,316,309	10,348,546	40,664,855
Unrestricted	15,601,168	1,469,265	17,070,433
Total Net Position	<u>\$ 45,917,477</u>	<u>\$ 11,817,811</u>	<u>\$ 57,735,288</u>

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended December 31, 2016

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Operating Revenues			
Charge for Services	\$ 5,842,673	\$ 1,640,245	\$ 7,482,918
Total Operating Revenues	<u>5,842,673</u>	<u>1,640,245</u>	<u>7,482,918</u>
Operating Expenses			
Operations			
General Operations	3,367,776	409,639	3,777,415
Water Purchased for Resale	150,213	-	150,213
Customer Service and Marketing	184,698	82,792	267,490
General Administration	920,146	364,221	1,284,367
Taxes	438,673	109,181	547,854
Depreciation, Amortization, Depletion	614,885	175,175	790,060
Total Operating Expenses	<u>5,676,391</u>	<u>1,141,008</u>	<u>6,817,399</u>
Operating Income (loss)	166,282	499,237	665,519
Nonoperating Revenues (Expenses)			
Interest Earnings	30,237	4,871	35,108
Interest and Fiscal Charges	(18,971)	(215)	(19,186)
Gain (Loss) on Disposal of Assets	(84,778)	-	(84,778)
Net Income (Loss) of Joint Ventures	240,292	-	240,292
Fines & Penalties	86,038	33,590	119,628
Miscellaneous Revenue (Expense)	78,682	9,658	88,340
Total Nonoperating Revenues (Expenses)	<u>331,500</u>	<u>47,904</u>	<u>379,404</u>
Income (Loss) before Contributions	497,782	547,141	1,044,923
Capital Contributions	288,790	877,383	1,166,173
Increase (Decrease) in Net Position	786,572	1,424,524	2,211,096
Total Net Position at Beginning of Year	45,130,905	10,393,287	55,524,192
Total Net Position at End of Year	<u>\$ 45,917,477</u>	<u>\$ 11,817,811</u>	<u>\$ 57,735,288</u>

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2016

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 5,761,984	\$ 1,613,231	\$ 7,375,215
Cash Payments to Suppliers	(3,142,255)	(143,138)	(3,285,393)
Cash Payments to Employees	(1,359,830)	(613,515)	(1,973,345)
Cash Payments to other Governments (Taxes)	(438,673)	(109,181)	(547,854)
Cash Payments for other Non-Operating Activities	164,720	43,248	207,968
Net Cash Provided (Used) by Operating Activities	<u>985,946</u>	<u>790,645</u>	<u>1,776,591</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(497,720)	(1,039,864)	(1,537,584)
Principal Paid on GO Bond	(52,650)	-	(52,650)
Interest Paid on Revenue Bonds and Other Long-Term Debt	(8,139)	-	(8,139)
Proceeds from Capital Debt	111,060	162,608	273,668
Receipt of Capital Contributions	227,839	487,824	715,663
Proceeds from Sale of Property	8,824	-	8,824
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(210,786)</u>	<u>(389,432)</u>	<u>(600,218)</u>
Cash Flows from Investing Activities:			
Interest on Investments	30,237	4,871	35,108
Net Cash Provided (Used) by Investing Activities	<u>30,237</u>	<u>4,871</u>	<u>35,108</u>
Net Increase (Decrease) in Cash and Cash Equivalents	805,397	406,084	1,211,481
Cash and Cash Equivalents at Beginning of Year	6,596,730	1,022,853	7,619,583
Cash and Cash Equivalents at End of Year	<u>7,402,127</u>	<u>1,428,937</u>	<u>8,831,064</u>
Cash and Cash Equivalents	7,402,127	1,428,937	8,831,064
Restricted Cash and Cash Equivalents	-	-	-
Total Cash and Cash Equivalents	<u>\$ 7,402,127</u>	<u>\$ 1,428,937</u>	<u>\$ 8,831,064</u>

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended December 31, 2015

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Reconciliation of Operating Income (Loss) to Net			
Cash Used by Operating Activities:			
Net Operating Income (Loss)	\$ 166,282	\$ 499,237	\$ 665,519
Adjustments to Reconcile Net Operating Income (Loss) to Net			
Cash Provided by Operations:			
Depreciation Expense	614,885	175,175	790,060
(Increase) Decrease in Receivables	(85,482)	(27,014)	(112,496)
Increase (Decrease) in Current Payables	147,015	68,304	215,319
Increase (Decrease) in Other Current Payables	6,941	4,840	11,781
Increase (Decrease) in Accrued Employee Benefits	4,088	(2,663)	1,425
Increase (Decrease) in Customer Deposits	5,550	-	5,550
Increase (Decrease) in Unearned Revenues	(758)	-	(758)
(Increase) Decrease in Pension Liability Expense	(37,295)	29,518	(7,777)
Receipt of Non Operating Revenues	164,720	43,248	207,968
Total Adjustments	819,664	291,408	1,111,072
Net Cash Provided (Used) by Operating Activities	\$ 985,946	\$ 790,645	\$ 1,776,591
Noncash Investing, Financing and Capital Activities			
Capital Assets - Donated /Grants Received	60,951	119,244	180,195
Gain / (Loss) on Joint Venture	240,292	-	240,292
Total Noncash Investing, Financing and Capital Activities	\$ 301,243	\$ 119,244	\$ 420,487

The notes to the financial statements are an integral part of this statement

CITY OF PORT ORCHARD
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

	<u>Agency Funds</u>
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 2,419,819
Total Assets	<u>2,419,819</u>
 Liabilities	
Accounts Payable	14,164
Custodial Accounts	<u>2,405,655</u>
Total Liabilities	\$ 2,419,819

The notes to the financial statements are an integral part of this statement

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The City of Port Orchard, Washington was incorporated on September 1, 1890 and operates under the laws of the state of Washington applicable to non-charter code cities (second-class city) with a Mayor/Council form of government. As required by the Generally Accepted Accounting Principles the financial statements represent the City of Port Orchard. In 2015, the City Council passed Ordinance No. 027-15 creating a Transportation Benefit District (TBD) for Port Orchard. The TBD is a blended component unit. It is a separate legal entity governed by the City Council and the City is operationally responsible for the TBD activities and transactions. There were no financial transactions associated with the TBD in 2016.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The city considers property taxes as available if they are collected with 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The general (or current expense) fund is the city's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. Included and reported in the General Fund are two managerial funds one of those is the City Street fund which accounts for a percentage of the revenue from state motor vehicle fuel taxes and expenditures for street construction, maintenance and repair. This fund accounts for transportation activities that the City Council wants to review separately from other activities. The other fund included in the General fund is the Stabilization fund.

The Capital Construction fund is used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). This fund accounts for grant funding and transfers from other funds (i.e. REET funds) which provide the funding to complete the projects.

The Street Capital Projects fund is used for the receipt and expenditure of a percentage of the state levied motor vehicle fuel taxes distributed to the City. The City utilizes these revenues as matching funds for grants specified for arterial street purposes. These are restricted revenue sources. Projects that use this tax are reflected on the six-year transportation improvement program as passed annually by Council.

The government reports the following major proprietary funds:

The Water Sewer fund accounts for the activity of the City's utilities. Its revenues are received from the sales of water and sewer services. Expenses are for the maintenance and extensions of water and sewer service facilities, operating a water supply system, maintaining a sewer treatment plant and lift stations.

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

The Storm Drainage Fund monitors and maintains the City's storm and surface water drainage. Revenues are based on fees received from properties within City limits that have impervious surfaces. Expenses are for operation, maintenance and improvement of the City's storm and surface water drainage system.

Fiduciary funds represent assets held in a trustee or agency capacity for others and do not report results of operation.

The City has two fiduciary funds. The Wastewater Treatment Facility Fund receives money from the joint venture to repay the Public Works Trust Fund loans. Also deposited into this fund are the Wastewater Treatment Facility Fees component of the Sewer Capital Facility Charge and interest earnings on such funds. These dollars are held in trust to mitigate the debt and future construction costs for the Wastewater Treatment Facility. The Agency Fund collects fees which the Treasurer, acting as an intermediary depository, shall distribute to the proper agencies on a regular and timely basis. Examples of these fees include but are not limited to state court fines, county crime victim fines, state building code fees, state concealed pistol licenses and background checks.

Additionally, the government reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital project funds are used to account for and report for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water, sewer and storm functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes, except those that are credited to their appropriate restricted fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. BUDGETARY INFORMATION

1. Scope of Budget

Annual appropriated budgets are adopted for the general fund, special revenue funds, debt service funds, and capital project funds on the modified accrual basis of accounting. Beginning for fiscal year 2017 the City adopts budgets on a biennial basis. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. The budgetary basis of accounting differs from generally accepted accounting principles. The City budgets the City Street activity and Stabilization activity as if they were special revenue funds. However, GAAP requires these activities to be reported with the General Fund, as they do not have significant streams of restricted resources. From a budgetary perspective, the City budgets for City Street activity and Stabilization activity separate from the General Fund. The budgetary comparison for the General Fund does not include the managerial funds.

Proprietary funds are budgeted on the full accrual basis for management control purposes only. Appropriations lapse at year-end.

2. Amending the Budget

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

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearing(s).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. ASSETS, LIABILITIES, FUND BALANCE, NET POSITION

1. Cash & Cash Equivalents

It is the city's policy to invest all temporary cash surpluses. At December 31, 2016, the treasurer was holding \$18,704,187 in short-term, residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

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 balances maintained during 2016 were approximately \$1,453,984.

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

For purposes of the statement of cash flows, the city considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Investments in the State Investment Pool and the Kitsap County Investment Pool are classified as cash equivalents on the financial statements.

Certain Investments for the City are reported at fair value in accordance with GASB statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Likewise, some investments are reported at amortized costs

2. Investments See Note 3. Deposits and Investments

3. Receivables

Property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay the liabilities of the current period is immaterial.

The Kitsap County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually before December 15, and become a lien as of January 1, on property value listed as of the prior May 31. Assessed values are established by the County assessor at 100 percent of fair market value. A physical inspection of all property is required at least every six years with annual review and update based on sales analysis.

Taxes are due in two equal installments on April 30 and October 31. The county treasurer remits collections monthly to the appropriate district. Taxes receivable consists of property taxes and related interest and penalties. (See Note 4)

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Assessments consist of unbilled special assessments that are liens against the property benefited. There were no outstanding special assessments receivables at December 31, 2016.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. In 2016, there were no interfund loans receivable and payable.

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

5. Inventories

Inventories in governmental and proprietary funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual items are purchased.

6. Restricted Assets and Liabilities

These accounts contain resources for programs, construction, and impact fees. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Note 9, Long-Term Debt.

7. Capital Assets See Note 5, Capital Assets

Capital assets, which include property, intangible assets, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued with estimated acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs of normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Buildings	50
Infrastructure	10-40
Intangible Assets	6-10
Utility Improvements	10-100
Mowers/Public Works Equipment	6-12
Vehicles	5

The City has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the City has sufficient legal interest to

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

accomplish the purposes for which the assets were acquired, and has included such assets within the applicable column in the statement of net position.

8. Deferred Outflows/Inflows of Resources

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The deferred inflow of resources recognized in the government-wide financial statements is a deferred amount on refunding of debt that will be amortized over the life of the refunding bond issue.

9. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and compensated time. In governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure. In prior years the General Fund has typically been used to liquidate compensated absences. In proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

For all employees except LEOFF II employees, vacation pay, which may be accumulated up to 30 days at December 31, is payable upon resignation, retirement or death (upon termination, pay is limited to 240 hours). There is no cap on the amount of payment for accrued vacation for LEOFF II employees (excluding management) upon termination. LEOFF II employees (excluding management) earn 120 hours holiday leave annually and may carry over 96 hours at December 31. There is no cap on the holiday leave payable upon resignation, retirement or death. Sick leave may be accumulated up to 960 hours and is not payable upon resignation, retirement or death for all employees except LEOFF II (excluding management). LEOFF II employees (excluding management) can accumulate more than 960 hours during the year, but may only carry over 960 hours from one year to the next. Effective October 1, 2014 all LEOFF II employees (excluding management) may elect to cash out up to 400 hours of accrued but unused sick leave, upon permanent separation from the City due to the employee's death, disability or voluntary termination. Any such sick leave cash out payments shall be made directly to respective employees medical health retirement/voluntary employee's beneficiary association account (HRA/VEBA). The remainder shall be forfeited without compensation.

10. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Other Accrued Liabilities

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These accounts consist of accrued wages, accrued taxes, accrued employee benefits, and accrued interest payable.

12. Long-Term Debt See Note 9, Long Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums (discounts) are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium (discount).

In the fund financial statements, governmental fund types recognize bond premium (discounts) during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses.

13. Unearned Revenue

Governmental funds also defer revenue recognition in connection with resources that have been received, but have not yet been earned.

	Unearned
South Kitsap School District-School Resource Officer Program	\$41,567
Total	\$41,567

14. Fund Balance Classification

The City presents fund balance classifications as follows:

- **Restricted fund balance:** includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- **Committed fund balance:** includes amounts that can be used only for specific purposes determined by formal action of the government's highest level of decision-making authority. The City Council enacts ordinances and resolutions that may impose, modify or rescind fund balance commitments. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- **Assigned fund balance:** comprises amounts intended to be used by the government for specific purposes. Intent can be by City Council action or by the City Treasurer per Ordinance No. 022-11. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- **Unassigned fund balance,** is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it

CITY OF PORT ORCHARD
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will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

- When both restricted and unrestricted resources are available, the City's policy is to use restricted resources first, and then unrestricted resources, as they are needed. When committed, assigned or unassigned amounts are available, the City's policy is to use committed resources first, assigned secondly and finally unassigned resources.

14. Fund Balance Details

Reserve Policies

The City will maintain the reserves, contingencies, and ending fund balances of the various operating funds at levels sufficient to protect the City's credit as well as its financial position from emergencies.

General Fund Reserves

The City recognizes that reserves need to be acquired over multiple budget years, and require discipline and a strong commitment to maintain them.

Reserves are a necessary component of the overall finance management strategy of the City. Reserves serve a variety of purposes; 1) Ensuring adequate resources for cash flow, 2) Mitigating short-term effects of revenue shortages, 3) Leveraging beneficial opportunities, 4) Providing the ability to exercise flexible financial planning, and 5) To address unforeseen emergencies or changes in conditions.

The City will strive to maintain a two tier reserve structure.

- Assigned Ending Fund Balance designated as working capital in the general fund
- Stabilization Arrangement reported as restricted or committed in the general fund

Working Capital

The City's goal shall be to maintain an undesignated General Fund ending fund balance of at least five percent of budgeted General Fund operating revenues. Ending fund balance may be used to cover cash flow needs caused by the ad valorem tax cycle which results in the traditional "W" cash flow sequence. Ending fund balance reserve is considered working capital of the General Fund.

F. OTHER

1. Stabilization Arrangement

A City Stabilization Arrangement in an amount of two months of its five year arithmetic mean of General Fund expenditure budget may be maintained annually as resources allow. Funding may come from one time revenues, monthly budgeted amounts from general revenues, and transfers from ending fund balance as authorized by Council resolution.

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Stabilization reserves shall be used if all efforts have been exhausted to fund a qualifying event and no reasonable budget adjustments are available to continue to provide essential services to the public. The City Treasurer must quantify, document and present the significance of the qualifying event. Authorization for spending stabilization reserves requires a simple majority vote of the City Council.

Qualifying Events:

- The state of Washington or Federal government formally declares a disaster or emergency.
- A natural or urgent event that jeopardizes public safety, impedes commerce, or threatens additional damage to City infrastructure.
- Unforeseen events or situation outside of the scope of contingency, planning or planned normal course of government operations.
- An act of war, terrorism, or declaration of Martial law.

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

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental funds’ balance sheet includes reconciliation between fund balance—total governmental funds and net position—governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds Payable	\$459,900
Plus: Deferred charge on refunding (to be amortized as interest expense)	3,274
Plus: Issuance premium (to be amortized as interest expense)	1,309
Accrued interest payable	1,419
Other post employment benefits	701,091
Pension Liability	2,239,452
Compensated absences	572,807
Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities	<u><u>\$3,979,252</u></u>

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B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental funds' statement of revenues, expenditures and changes in fund balances includes reconciliation between net changes in fund balances—total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains, “governmental funds report capital outlays as expenditures.” However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Current Year Capital outlay	\$2,832,917
Current Year Depreciation expense	<u>(1,090,377)</u>
Net adjustment to decrease net changes in fund balances- total governmental funds to arrive at change in net position of governmental activities	<u><u>\$1,742,540</u></u>

Another element of that reconciliation is the net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) to increase net position. The details of this are as follows:

Donated Capital Assets	\$929,512
Sale of Capital Assets	\$(6,968)
Insurance Reimbursements	\$(8,999)
Gain (Loss) on Sale of Capital Assets	<u>(14,074)</u>
Increase in Net Position	<u><u>\$899,471</u></u>

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this are as follows:

Municipal Court & Non-major fund revenues	\$(34,860)
Tax revenues - unavailable	(5,914)
Due from Other Governments	48,500
Jail Medical	-
Grant received in Advance	(1,000)
Special Funding Situation-LEOFF 1	<u>62,633</u>
Net adjustment to increase net changes in fund balances- total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$69,359</u></u>

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Another element of that reconciliation states “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this are as follows:

Accrued interest	\$416
Employee benefits accrual	(30,530)
Amortization of deferred amount on refunding	1,266
Amortization of bond premiums	522
OPEB	(125,395)
Pension Expense Adjustment	11,474
Net adjustment to decrease net changes in fund balances- total governmental funds to arrive at changes in net position of governmental activities	\$(142,247)

NOTE 3. DEPOSITS AND INVESTMENTS

As of December 31, 2016, the City cash, cash equivalents, and investments as reported on the Statement of Net Position are as follows:

Cash & Cash Equivalents	City	Fiduciary	Total
Cash on hand	\$3,750		\$3,750
Cash deposits in bank accounts	1,305,904	14,821	1,320,725
Washington State Local Government Investment Pool	6,172,249		6,172,249
Kitsap County Investment Pool	7,178,848	924,621	8,103,469
Kitsap Bank Money Market	2,948,092	1,480,377	4,428,469
Total Cash and Cash Equivalents	\$17,608,843	\$2,419,819	\$20,028,662

The City as of December 31, 2016 had investments of \$6,172,249 in the Washington State Local Government Investment Pool and \$8,103,469 in the Kitsap County Investment Pool, which are classified as cash equivalents. Additional cash & cash equivalents consist of \$4,428,469 held in interest bearing bank accounts.

A. DEPOSITS

Custodial risk for deposits is the risk that, in the event of a bank failure, the government’s deposits may not be returned. The City’s deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection

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Commission (PDPC). In the event of a bank failure, claims for the City's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

B. INVESTMENTS

Statutes authorize the City to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, county investment pool and the state treasurer's investment pool. The City is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2016.

The City is currently invested in two public funds investment pools, Washington State Local Government Investment Pool (LGIP), which is reported at amortized cost, and the Kitsap County Investment Pool (KCIP), reported at fair value.

The LGIP and KCIP operate in accordance with appropriate state laws and regulations. The LGIP transacts with its participants at a stable net asset value per share and meets the portfolio maturity, quality, diversification, liquidity and shadow pricing requirements that allows it to report at amortized costs. Further, The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission

Kitsap County investment pool is not SEC-registered. Authority to manage the Pool is derived from the Revised Code of Washington (RCW) in RCW 36.29.022. The fair value of the position in the pool is the same as the value of the pool shares.

The weighted average maturities of the LGIP and KCIP are less than three (3) months and approximately one (1) year, respectively, with cash available to the City on demand. The on demand availability of these funds defines them as cash equivalent liquid investments. Cash investments are not subject to interest rate risk or any market value reporting requirements. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third party custody provider in the name of the LGIP or KCIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee. The KCIP is under the direct authority of the elected Kitsap County Treasurer and the Kitsap County Finance Committee must approve the Investment Policy. The pool is audited annually by the Washington State Auditor's Office and regulated by Washington RCW's.

Investments Measured at Amortized Cost

As of December 31, 2016, the City had the following investments at amortized cost.

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Investment	Maturities	City's own investments	Investment held by City as an agent for other local governments, individuals or private organizations	Total
Washington State Local Government Investment Pool	N/A	\$6,172,249	\$ -	\$6,172,249
Total		<u>\$6,172,249</u>	<u>\$ -</u>	<u>\$6,172,249</u>

These are reported at amortized cost because the State Pool has elected to measure in this manner. The only restriction on withdrawals from the State Investment Pool is when a deposit is received by ACH. In this case, a five day waiting period exists.

Investments Measured at Fair Value

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3: Unobservable inputs for an asset or liability, to the extent observable inputs are not available

As of December 31, 2016, the City had the following recurring fair value measurements.

Investments by fair value level	Total	Quoted Process in Active Markets for Identical Assets (Level 1)	Signific ant Other Observable Inputs (Level 2)	Significan t Unobservable Inputs (Level 3)
Kitsap County Investment Pool	\$8,103,469	\$784,416	\$7,319,053	\$ -
Total	<u>\$8,103,469</u>	<u>\$784,416</u>	<u>\$7,319,053</u>	<u>\$ -</u>

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The investment in the LGIP and the KCIP are not subject to foreign currency risk, interest rate risk or credit risk, as the City can withdraw its participation for same or next day settlement in both of these pools.

NOTE 4. PROPERTY TAX

The Kitsap County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

Property Tax Calendar

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

Property taxes revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial. The balance at year-end is recorded as taxes receivable. The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. The City is annexed to South Kitsap Fire and Rescue and Kitsap Regional Library. South Kitsap Fire may levy up to \$1.50, Kitsap Regional Library may levy up to \$0.50; the difference of South Kitsap Fire's levy and Kitsap Regional Library's levy, and \$3.60 is the City's capacity.

The City's regular levy for 2016 was \$1.749276 per \$1,000 on an assessed valuation of \$1,405,166,175 for a total regular levy of \$2,458,008.

Special levies approved by the voters are not subject to the limitations listed above.

Washington State Constitution and Washington State Law, RCW 84.55.010 limit the rate.

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Notes to Financial Statements
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NOTE 5. CAPITAL ASSETS

A. CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Bal. 01/01/16	Increases	Decreases	Ending Bal. 12/31/16
Governmental activities:				
Capital assets, not being depreciated				
Land and other improvements	\$1,850,097	\$346,388	\$-	\$2,196,485
Intangible Assets	3,079,522	620,610	-	3,700,132
Construction in progress	1,824,090	2,058,040	871,488	3,060,642
Total capital assets, not being depreciated	<u>6,803,709</u>	<u>3,025,037</u>	<u>871,488</u>	<u>8,957,259</u>
Capital assets, being depreciated/depleted:				
Buildings	7,439,058	871,488	114,080	8,196,466
Equipment	3,055,416	416,756	102,234	3,369,938
Infrastructure	30,010,158	292,650	-	30,302,808
Intangible Assets	90,138	27,986	-	118,124
Total capital assets being depreciated	<u>40,594,770</u>	<u>1,608,879</u>	<u>216,314</u>	<u>41,987,336</u>
Less accumulated depreciation for:				
Buildings	2,328,143	145,459	-	2,473,602
Equipment	2,156,461	210,253	102,234	2,264,480
Infrastructure	16,654,711	731,270	84,039	17,301,942
Intangible Assets	67,570	3,395	-	70,965
Total accumulated depreciation	<u>21,206,885</u>	<u>1,090,377</u>	<u>186,273</u>	<u>22,110,990</u>
Total capital assets, being depreciated, net	<u>19,387,885</u>	<u>518,502</u>	<u>30,041</u>	<u>19,876,346</u>
Governmental activities capital assets, net	<u>\$26,191,594</u>	<u>\$3,543,540</u>	<u>\$901,529</u>	<u>\$28,833,605</u>

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

Governmental activities:	
General government	142,467
Security of persons and property	127,277
Transportation	745,718
Physical environment	-
Culture and recreation	74,915
Total depreciation expense—governmental activities	<u>1,090,377</u>

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Notes to Financial Statements
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	Beginning Bal. 01/01/16	Increases	Decreases	Ending Bal. 12/31/16
Business-type Activities:				
Capital assets, not being depreciated				
Land and other improvements	\$1,071,823	-	\$87,900	\$983,923
Intangible Assets	1,085,866	-	-	1,085,866
Construction in progress	2,424,441	348,627	300	2,772,768
Total capital assets, not being depreciated	4,582,130	348,627	88,200	4,842,557
Capital assets, being depreciated/depleted:				
Buildings	4,640,429	1,053,062	-	5,693,491
Equipment	5,254,425	173,746	21,961	5,406,210
Infrastructure	38,621,494	180,195	6,018	38,795,671
Intangible Assets	137,482	3,680	0	141,162
Total capital assets being depreciated	48,653,830	1,410,684	27,979	50,036,534
Less accumulated depreciation for:				
Buildings	1,168,435	92,772	-	1,261,207
Equipment	3,531,201	237,215	21,961	3,746,455
Infrastructure	7,403,652	449,112	315	7,852,449
Intangible Assets	58,642	10,961	0	69,603
Total accumulated depreciation	12,161,930	790,060	22,277	12,929,714
Total capital assets, being depreciated, net	36,491,899	620,623	5,702	37,106,820
Business-type activities capital assets, net	41,074,029	969,250	93,902	41,949,377

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

Business-type activities:	
Water-Sewer	\$614,885
Storm Drainage	175,175
Total depreciation expense-business-type activities	\$790,060

NOTE 6. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The City of Port Orchard has active construction projects as of December 31, 2016.

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At year-end the city's commitments with contractors are as follows:

2016 Governmental Construction in Progress Activity:

Project	Spent to Date	Remaining Commitment
720 Prospect Street	\$212,033	0
Bay Street Pedestrian Path	750,339	\$124,678
McCormick Park Phase II	222,153	0
Old Clifton Anderson Hill Intersection	118,923	0
Tremont Street Widening	1,757,194	27,034
Total	\$3,060,642	\$151,711

2016 Business-type Construction in Progress Activity:

Project	Spent to Date	Remaining Commitment
Marina Pump Station	\$48,118	\$-
Tremont Widening Water Mains	29,656	-
Tremont Widening Sewer Mains	29,656	-
Water Rights & 2nd Wa Rights	157,702	-
Well #9	1,302,713	-
Well #10	668,145	815,153
Well #11	536,778	-
Total	\$ 2,772,768	\$ 815,153

NOTE 7. PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 3,522,003
Pension assets	\$ 430,866
Deferred outflows of resources	\$ 884,029
Deferred inflows of resources	\$ 60,655
Pension expense/expenditures	\$ 491,586

CITY OF PORT ORCHARD
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State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

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PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

CITY OF PORT ORCHARD
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PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

* For employees participating in JBM, the contribution rate was 15.30%.

The City's actual PERS plan contributions were \$184,777 to PERS Plan 1 and \$225,930 to PERS Plan 2/3 for the year ended December 31, 2016.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three

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percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%

The City’s actual contributions to the plan were \$100,129 for the year ended December 31, 2016.

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. For the state fiscal year ending June 30, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$62,633.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of the Net Pension Liability/ (Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	2,031,469	1,684,609	1,386,115
PERS 2/3	3,382,972	1,837,394	(956,469)
LEOFF 1	(38,974)	(65,609)	(88,375)
LEOFF 2	1,024,284	(365,258)	(1,412,569)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a total pension liability of \$3,522,003 for its proportionate share of the net pension liabilities and \$430,866 for its share of net pension assets as follows:

Plan	Liability or Asset
PERS 1	1,684,609
PERS 2/3	1,837,394
LEOFF 1	(65,609)
LEOFF 2	(365,258)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net

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pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
LEOFF - employer's proportionate share	(65,609)	(365,258)
LEOFF - State's proportionate share of the net pension asset associated with the employer	(443,775)	(238,122)
TOTAL	(509,384)	(603,379)

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.03132%	0.03137%	0.00005%
PERS 2/3	0.03555%	0.03649%	0.00095%
LEOFF 1	0.00630%	0.00637%	0.00007%
LEOFF 2	0.06423%	0.06280%	-0.00143%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 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. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the City recognized pension expense as follows:

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	Pension Expense
PERS 1	99,131
PERS 2/3	276,554
LEOFF 1	(9,167)
LEOFF 2	125,068
TOTAL	491,586

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	42,416	-
Contributions subsequent to the measurement date	93,673	-
TOTAL	\$ 136,089	\$ -

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 97,840	\$ (60,655)
Net difference between projected and actual investment earnings on pension plan investments	224,844	-
Changes of assumptions	18,991	-
Changes in proportion and differences between contributions and proportionate share of contributions	36,454	-
Contributions subsequent to the measurement date	116,724	
TOTAL	\$ 494,852	\$ (60,655)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	6,669	-
TOTAL	\$ 6,669	\$ -

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LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,050	\$ -
Net difference between projected and actual investment earnings on pension plan investments	131,252	-
Changes of assumptions	1,377	-
Changes in proportion and differences between contributions and proportionate share of contributions	11,706	-
Contributions subsequent to the measurement date	52,033	-
TOTAL	\$ 246,418	\$ -

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2017	(10,444)	13,342	(1,378)	638
2018	(10,444)	13,342	(1,378)	638
2019	38,954	182,356	5,776	110,872
2020	24,349	108,432	3,650	77,088
2021	-	-	-	5,150
Thereafter	-	-	-	-

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 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, 2016, 98 municipalities/entities participate in the AWC RMSA pool.

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The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages 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, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy, 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 Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits, an excess liability policy is purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2016, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

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.

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.

There have been no settlements in the past three years that exceeded the city's insurance coverage.

NOTE 9. LONG-TERM DEBT

A. LONG-TERM DEBT

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The City has \$630,000 in general obligation bonds outstanding on December 31, 2016 for the construction of city hall.

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General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds). General obligation bonds currently outstanding are as follows:

Name of Issuance	Purpose	Maturity Date	Interest Rate	Original Amount	Debt Outstanding
2003 LTGO Bond	Bus. Type & Gov'tl. Activities	12/1/2019	2%-3.8%	\$3,000,000	\$630,000
Total General Obligation Bonds					\$630,000

The City provides for cash to fund current debt service requirements as a part of the budgeting process. Annual debt service requirements to maturity for general obligation bonds are as follows:

	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2017	149,650	17,024	166,674	55,350	6,296	61,646
2018	153,300	11,636	164,936	56,700	4,304	61,004
2019	156,950	5,964	162,914	58,050	2,206	60,256
	\$459,900	\$34,624	\$494,524	\$170,100	\$12,806	\$182,906

All bond issues comply with arbitrage regulations.

B. DUE TO OTHER GOVERNMENTS

On April 8, 2014 the City approved Contract No. 043-14 authorizing the Mayor to Execute a Loan Contract with the Department of Commerce in the amount of \$6,060,000 for the Well No.10 project. The loan is funded from the Drinking Water State Revolving Fund (DWSRF) which is a federal infrastructure loan program designed to assist Municipal and other drinking water systems with low-interest construction loan funding, The City's interest rate is 1.5% and the loan term is 24 years.

On November 10, 2015, the City approved Resolution No. 019-15 authorizing the Mayor to enter into a loan agreement with Department of Ecology in the amount of \$253,750. The city will receive a total award of \$1,015,000 for the Regional Decant Facility Retrofit of this amount \$761,250 is a grant and the remaining \$253,750 is a loan. The City's interest rate is 2.4%.

Total debt outstanding as of December 31, 2016 is as follows:

Name	Original Amount	Purpose	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
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Bus.-Type Activities Drinking Water State Revolving Fund (DWSKR)	\$-	Capital	4/8/2014	10/1/2038	1.50%	\$782,656
Clean Water State Revolving Fund Loan	\$-	Capital	11/10/2015	1/2/2037	2.40%	\$162,608
Bus.-Type Total						<u>945,264</u>
Total Due to other Governments						<u>\$945,264</u>

<u>Business Type Activities</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	-	-	-
2018	8,130	195	8,326
2019	47,263	782	48,045
2020	47,263	782	48,045
2021	47,263	782	48,045
2022-2026	236,316	3,911	240,227
2027-2031	236,316	3,911	240,227
2032-2036	236,316	3,911	240,227
2037-2038	86,396	1,369	87,765
	<u>\$945,264</u>	<u>\$15,642</u>	<u>\$960,907</u>

C. GOVERNMENT NOTE

Government note in business activity outstanding at year-end is as follows:

<u>Name</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
Bus.-Type Activities						
McCormick Note	\$441,250	Capital	11/23/1998	N/A	0.00%	\$168,250
Bus.-Type Total						<u>168,250</u>
Total Note						<u>\$168,250</u>

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The promissory note that was entered into for the purchase of the McCormick Water Company is being repaid with new McCormick water connection fees as the revenue source. There is \$700 paid on each of the first 550 connections and \$225 paid on the 551st through the 800th connection. Payments are made no less frequent than quarterly. This type of note does not have a repayment schedule.

D. REFUNDED DEBT

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase US Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been removed as a liability from the governmental activities column of the statement of net position. At December 31, 2016, \$5,000 of bonds outstanding are considered defeased.

NOTE 10. LEASES

Operating Leases

The City is obligated under certain leases accounted for as operating leases. These represent lease of copiers, a postage machine, lease for a police substation and an aquatic lands lease. The lease for the police substation expired April, 2016. The City signed an aquatic lands lease June 4, 2012, with Washington State Department of Natural Resources. The second four year period the lease payment amount is \$18,602.49 (with an inflation adjustment annually.) In 2016, \$18,602.49 was paid to DNR for this lease. At the end of each four year period, the state will re-value the annual rent.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016:

Year Ending December 31	Total
2017	37,178.13
2018	26,085.31
2019	18,602.49
Total minimum payments required	\$81,865.93

Total rent expense for the year ended December 31, 2016 was \$37,778.13.

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NOTE 11. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term debt changes of the City for the year ended December 31, 2016:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	\$602,250	\$-	\$142,350	\$459,900	\$149,650
Premiums	1,831	-	522	1,309	522
Total bonds payable	604,081	-	142,872	461,209	150,172
Net Pension Liability*	1,853,861	385,591	-	2,239,452	-
OPEB obligations	575,696	165,729	40,334	701,091	-
Compensated absences	542,277	30,530	-	572,807	508,261
Governmental activity long-term liabilities	\$3,575,915	\$581,850	\$183,206	\$3,974,559	\$658,433
Business-type activities					
Bonds payable:					
General obligation bonds	\$222,750	\$-	\$52,650	\$170,100	\$55,350
Premiums	672	-	192	480	192
Total bonds payable	223,422	-	52,842	170,580	55,542
Drinking Water State Revolving Fund Loan	671,596	111,060	-	782,656	-
Water Quality Loan	-	162,608	-	162,608	-
Private note	168,250	-	-	168,250	-
Net Pension Liability*	1,054,457	228,094	-	1,282,551	-
Compensated absences	84,665	1,425	-	86,090	64,495
Business-type activities long-term liabilities	\$2,202,390	\$503,187	\$52,842	\$2,652,735	\$120,037

NOTE 12. CONTINGENCIES AND LITIGATION

The City of Port Orchard has situations which are not yet resolved, but based on available information, in the opinion of management, the City of Port Orchard's insurance policies and/or reserves are adequate to pay all known or pending claims.

As discussed in Note 9. Long Term Debt, the City is contingently liable for repayment of refunded debt.

The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants.

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(Other than the instances described above,) City management believes that such disallowances, if any, will be immaterial.

NOTE 13. RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$4,003,873 of restricted component of net position, all of which is restricted by enabling legislation.

NOTE 14. INTERFUND TRANSFERS

A. INTERFUND TRANSFERS

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These are transfers to support other funds without a requirement for repayment. Transfers included General Fund receiving \$457,000 for paving street paving and improvements from the Real Estate Excise Tax fund and the Street Capital Projects fund. Capital Projects fund received \$250,000 for Dekalb Pier and other projects, and \$10,137 for 720 Prospect Street from the General Fund. It also received \$241,500 for 720 Prospect St and \$128,286 for Dekalb Pier from the Real Estate Excise Tax Fund and \$137,500 for McCormick Woods Park from Impact Fee Fund. Street Capital Projects fund received \$118,923 for the Old Clifton/Anderson intersection from the Impact Fee Fund and \$7,026 for the Rockwell Trailhead from Real Estate Excise Tax fund and \$5,000 from the General Fund for Tremont Street. The bond debt service fund received \$164,356 from the Real Estate Excise tax fund for debt service for City Hall. The Cumulative reserve for municipal equipment received \$188,385 for various vehicle purchases from the General Fund. The interfund transfer activity for 2016 is as follows:

		Transfer From					
		General Fund	Street Capital Projects	Water Sewer	Storm Drainage	Nonmajor Gov't Funds	Total
Transfer To	General Fund					\$457,000	\$457,000
	Capital Projects Fund	\$260,137				\$507,286	\$767,422
	Street Capital Projects	5,000				125,949	130,949
	Nonmajor Governmental Funds	188,385				164,356	352,741
	Total	\$453,522	\$-	\$-	\$-	\$1,254,590	\$1,708,112

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NOTE 15. RECEIVABLES BALANCES

A. RECEIVABLES

Receivables at December 31, 2016 were as follows:

Governmental Activities:	Due from Other Gvts	Taxes	Other	Total
General Fund taxes	\$-	\$82,539	\$-	\$82,539
General Fund miscellaneous receivables			52,155	52,155
General Fund municipal court receivables			421,416	421,416
General Fund due from other governments	1,514			1,514
Special Investigative Unit court receivables			35,751	35,751
Impact Mitigation Fee Fund bayside receivable				-
Capital Construction due from other governments	48,500			48,500
Street Capital Projects miscellaneous receivables				-
Street Capital Projects due from other gov/misc rec	239,936			239,936
Total Governmental Activities	\$289,950	\$82,539	\$509,322	\$881,811
Business Type Activities:				
Water-Sewer accounts receivables	\$-	\$-	\$825,406	\$825,406
Water-Sewer soil clean-up receivable			117,401	117,401
Storm Drainage accounts receivable			285,460	285,460
Storm Drainage due from other governments	270,315			270,315
Total Business Type Activities	\$270,315	\$-	\$1,228,267	\$1,498,582

NOTE 16. 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. In accordance with the generally accepted accounting principles, the proportional shares of the joint venture's results of operations are presented as a single operating account on the City's proprietary fund's operating statement – Investment in Joint Venture. In 2016, the change in the City's equity in the joint venture was an increase of \$240,292. This amount was effected by the implementation of GASB 68. The City of Port Orchard's equity interest in the secondary Wastewater Treatment Facility as of December 31, 2016 was \$8,612,271.

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Notes to Financial Statements
December 31, 2016

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% City and 51% District.

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. 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 2016 each entity paid \$250,000.

Name of Issuance	Purpose	Total Amount of Loan	First Draw Date	Maturity Date	Interest Rate	Debt Outstanding
Public Works Trust Fund						
Loan 1	Capital	\$10,000,000	2/29/2004	7/1/2022	0.50%	\$3,315,570
Loan 2	Capital	\$6,800,000	6/30/2005	7/1/2024	0.50%	2,880,000
Joint Venture Total						<u>6,195,570</u>
Total Loans						<u><u>\$6,195,570</u></u>

West Sound Utility District maintains separate accounting records and prepares separate financial statements for the operations of the Joint Wastewater Treatment Facility. Complete financial statements for the Facility can be obtained from West Sound Utility District at 2924 SE Lund Ave, Port Orchard, WA 98366.

NOTE 17. OTHER POST EMPLOYMENT BENEFITS (OPEB) PLANS

A. PLAN DESCRIPTION – DEFINED BENEFIT – SINGLE EMPLOYER PLAN (LEOFF 1 OPEB)

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977. The members necessary hospital, medical and nursing care expenses, not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or any other similar source are covered. Most medical coverage for eligible retirees is provided by one of the City's employee medical insurance programs. As of December 31, 2016 the City has four members in this group.

This OPEB plan does not issue a stand-alone financial report nor is it included in the report of another entity.

Funding Policy

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The plan is not currently funded. The City finances it on a pay-as-you-go-basis.

Actuarial Methods and Assumptions

The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Annual OPEB Cost and Net OPEB Obligation

The City was required to contribute \$194,480, but only contributed \$40,334 at December 31, 2016. This \$40,334 contributed differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO). This amount of \$701,091 is the actuarial accrued liability recognized on the government wide statement of net position.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2016	\$165,729	24%	\$701,091
2015	\$179,412	33%	\$575,696
2014	\$148,976	42%	\$454,600

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2016	0	2,162,300	2,162,300	0%	0	N/A
12/31/2015	0	2,247,199	2,247,199	0%	0	N/A
12/31/2014	0	1,860,814	1,860,814	0%	0	N/A

The Annual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of twenty five years using closed group contribution rates, and annual budget growth of 29.00%, with a +or- 5.0% medical inflation sensitivity performed as of December 31, 2016. The following table shows the components of the City's annual OPEB cost

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

for the year, the amount actually contributed to the plan, and changes in the net OPEB Obligation. The net OPEB obligation of \$701,091 is included as a non-current liability in the statement of net position.

	2016
Determination of Annual Required Contribution	
Normal Cost at beginning of year	\$-
Amortization of UAAL*	194,480
Annual Required Contribution (ARC) at year-end	194,480
 Determination of Net OPEB Obligation	
Actuarial Required Contribution (ARC 12/31/15)	194,480
Interest on Net OPEB Obligation (NOO)	23,028
Adjustment to NOO	(51,779)
Annual OPEB Cost	165,729
 Employer Contributions	 (40,334)
Increase (Decrease) in NOO	125,395
Net OPEB Obligation January 1, 2015	575,696
Net OPEB Obligation December 31, 2015	\$701,091

The City's percentage of annual OPEB cost contributed to the plan for 2016 is 24%.

The required schedule of funding progress is immediately following the notes to the financial statements.

B. OTHER RETIREES - AWC (OTHER THAN LEOFF1)

The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and nature of the medical and other benefit provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy

The Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

Retirees receiving medical benefits from the trust	2016	
Monthly Contributions:	Healthfirst R- 1000	Healthfirst R- 2500
Non-Medicare enrolled retiree coverage	\$734.37	\$641.21
Non-Medicare enrolled spouse coverage	\$740.78	\$645.87

Participating employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF1 retirees. The retiree pays for 100% of the premium.

NOTE 18. HEALTH & WELFARE

The City of Port Orchard is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

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

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

NOTE 19. TERMINATION BENEFITS

The funding policy for any termination benefits is based upon pay-as-you-go. These termination benefits are handled on a case by case basis.

NOTE 20. SUBSEQUENT EVENT

The City executed preliminary engagement letters with S&P Global Ratings and D.A. Davidson & Co. with the reasonable expectation to issue \$7,915,000* City of Port Orchard, Washington Limited General Obligation Bonds, 2017. The proceeds of the Bonds will be used to (1) pay for a portion of the costs related to the Tremont Widening Project, including making certain improvements to Tremont Street and related public infrastructure; and (2) pay costs related to the issuance and sale of the Bonds. It is anticipated the City Council will adopt a Bond Ordinance authorizing the issuance of the Bonds at its regularly scheduled June 27, 2017 meeting. *Preliminary, subject to change.

CITY OF PORT ORCHARD
Notes to Financial Statements
December 31, 2016

The City is negotiating a Developer Extension Agreement for Water Utility System Improvements with McCormick Communities LLC. The developer will construct water resource infrastructure, well development and system piping for the delivery of potable water, and sanitary sewer rehabilitation and upgrades to an existing sewer pump station. The City may reimburse the developer approximately \$13 million pursuant to RCW 36.70b.170.

Required Supplementary Information
LEOFF 1 Retiree Medical Benefits
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2014	0	\$1,860,814	\$1,860,814	0%	0	N/A
12/31/2015	0	\$2,247,199	\$2,247,199	0%	0	N/A
12/31/2016	0	\$2,162,300	\$2,162,300	0%	0	N/A

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2016

Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.031368%	\$ 1,684,609	\$ 3,569,404	47.20%	57.03%
2015	0.031319%	1,638,275	3,347,457	48.94%	59.10%
2014	0.031858%	1,604,862	3,238,306	49.56%	61.19%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2016

Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.036493%	\$ 1,837,394	\$ 3,422,548	53.68%	85.82%
2015	0.035545%	1,270,043	3,153,865	40.27%	89.20%
2014	0.035257%	712,671	3,017,268	23.62%	93.29%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard

Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1

As of June 30, 2016
Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	State's proportionate share of the net pension liability (asset) associated with the employer	TOTAL	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.006368%	\$ (65,609)	(443,775)	\$ (509,384)	N/A	N/A	123.74%
2015	0.006300%	(75,929)	(513,582)	(589,511)	N/A	N/A	127.36%
2014	0.006248%	(75,775)	(512,540)	(588,315)	N/A	N/A	126.91%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard

Schedule of Proportionate Share of the Net Pension Liability

LEOFF 2

As of June 30, 2016

Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	State's proportionate share of the net pension liability (asset) associated with the employer	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
				TOTAL		
2016	0.062799%	\$ (365,258)	(238,122)	\$ 1,903,317	-19.19%	106.04%
2015	0.064232%	(660,176)	(436,507)	1,864,263	-35.41%	111.67%
2014	0.064715%	(858,796)	(580,703)	1,800,946	-47.69%	116.75%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard
 Schedule of Employer Contributions
 PERS 1
 As of December 31, 2016
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 184,777	\$ (184,777)	\$ -	\$ 3,733,709	4.95%
2015	165,452	(165,452)	-	3,572,533	4.63%
2014	144,556	(144,556)	-	3,290,044	4.39%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard
 Schedule of Employer Contributions
 PERS 2/3
 As of December 31, 2016
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 225,930	\$ (225,930)	-	\$ 3,626,497	6.23%
2015	197,481	(197,481)	-	3,411,864	5.79%
2014	153,212	(153,212)	-	3,062,326	5.00%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard
 Schedule of Employer Contributions
 LEOFF 1
 As of December 31, 2016
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ -	\$ -	\$ -	N/A	N/A
2015	-	-	-	N/A	N/A
2014	-	-	-	N/A	N/A

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Port Orchard
 Schedule of Employer Contributions
 LEOFF 2
 As of December 31, 2016
 Last 3 Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 100,129	\$ (100,129)	\$ -	\$ 1,982,752	5.05%
2015	102,563	(102,563)	-	1,961,041	5.23%
2014	96,584	(96,584)	-	1,846,733	5.23%

City of Port Orchard
Notes to Required Supplemental Information - Pension

As of December 31
Last Three Fiscal Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3: LEOFF 1

For LEOFF 1, there is a net pension asset; however, there are no active employees participating in the plan, and no required contributions because the plan is fully funded. Therefore, covered payroll and contributions as a percent of covered payroll are displayed as N/A.

Note 4: Covered payroll

Covered payroll has been retrospectively presented in accordance with GASB 82, *Pension Issues*. Covered payroll now includes all payroll on which a contribution is based. In prior reports, Plan 1 UAAL covered payroll was included for plans other than PERS 1.

**City of Port Orchard
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			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPH-6610 (004) / LA-5855	243,095	-	243,095	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPE-0166 (008) / LA-6165	521,816	-	521,816	-	
Total Highway Planning and Construction Cluster:				764,911	-	764,911	-	
US Dept of Transportation- National Highway Traffic Safety Admin (via WA Traffic Safety Commission)	State & Community Highway Safety	20.6	n/a	2,128	-	2,128	-	
Highway Safety Cluster								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	n/a	3,487	-	3,487	-	
Total Highway Safety Cluster:				3,487	-	3,487	-	
Clean Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency (via WA Dept of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- PoOrPW-00005	252,713	-	252,713	-	3
Total Clean Water State Revolving Fund Cluster:				252,713	-	252,713	-	
Drinking Water State Revolving Fund Cluster								

The accompanying notes are an integral part of this schedule.

**City of Port Orchard
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			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Office Of Water, 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	84,011	-	84,011	-	3
Total Drinking Water State Revolving Fund Cluster:				84,011	-	84,011	-	
United States Coast Guard (uscg), Department Of Homeland Security (via WA State Parks & Recreation Commission)	Boating Safety Financial Assistance	97.012	n/a	4,199	-	4,199	-	
Total Federal Awards Expended:				1,111,449	-	1,111,449	-	

CITY OF PORT ORCHARD
Notes to Schedule of Expenditures of Federal Awards
January 1, 2016 through December 31 2016

NOTE 1. BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Port Orchard's financial statements. The City uses the accrual basis of accounting for all funds except the governmental fund types, expendable trust funds and agency funds, which use the modified accrual basis of accounting.

NOTE 2. 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 Regulation Part 200, Uniform Administration Requirements, Costs Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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 totaling \$117,199 to improve its drinking water system. The amount listed is the proceeds used during the year. Of the funds used in 2016, the Federal portion is \$84,011 and State funds of \$33,188. The outstanding balance is not reported for this loan.

The City was approved by the Environmental Protection Agency (EPA) and the Washington State Department of Commerce (COM) to receive a Clean Water State Revolving Fund Loan totaling \$252,713 to help fund construction of a regional storm water decant facility. The amount listed is the proceeds used during the year. A State grant from the Stormwater Financial Assistance Program administered by the Department of Commerce was also used to complete this project.

NOTE 4 – INDIRECT COST RATE

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

GRANT DESCRIPTION:

US Department of Transportation / WSDOT - Tremont Street Widening Project

This WSDOT project will widen Tremont Street to provide four continuous lanes between Port Orchard Blvd and SR 16. In addition to providing roadway widening and aesthetic improvements, this will provide curb, gutter, and sidewalks along both sides of the road; intersection modifications; improvements to storm drainage facilities; traffic signal and illumination upgrades; retaining walls and bike paths.

US Department of Transportation / 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.

US Dept of Homeland Security / Washington State Parks Boating Safety

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

CITY OF PORT ORCHARD
Notes to Schedule of Expenditures of Federal Awards
January 1, 2016 through December 31 2016

National Highway Traffic Safety Admin / WA Traffic Safety Commission

These grants were awarded to the City to offset costs of extra DUI, Speeding, and Seatbelt Emphasis patrols.

US EPA Drinking Water State Revolving Fund Loan/ WSDOC – Well 10

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. During the initial 48 months the City may draw on the loan to design and construct the well. Construction must be complete at the end of the 48 month period. 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.

US EPA Clean Water State Revolving Fund Loan/ WSDOC- Decant Facility

The purpose of this project is to improve both local and regional water quality by the construction of an upgraded regional Stormwater decant facility, the size and function of this facility will allow four jurisdictions to dispose of the solid and liquid wastes from stormwater and wastewater maintenance activities.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER UNIFORM GUIDANCE**

**City of Port Orchard
Kitsap County
January 1, 2016 through December 31, 2016**

This schedule presents the corrective action planned by the auditee for findings reported in this report 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). The information in this schedule is the representation of the City.

Finding ref number: 2016-001	Finding caption: The City did not have proper internal controls in place to ensure compliance with federal procurement requirements.
Name, address, and telephone of auditee contact person: Allan Martin, Treasurer City of Port Orchard 216 Prospect Street Port Orchard, WA 98366	
Corrective action the auditee plans to take in response to the finding: <i>The City began corrective action to improve procurement processes in December 2016 with the adoption of Ordinance No. 86-16 setting forth standards of conduct and written procedures in accordance with the Code of Federal Regulations.</i> <i>Corrective action includes newly adopted updated written procurement policy and procedures March 21, 2017.</i> <i>Continuing actions consist of education and staff training; the assignment of an employee to serve as procurement officer; and strong department head and elected official support.</i>	
Anticipated date to complete the corrective action: September 29, 2017	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov