



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

**Financial Statements and Federal Single Audit  
Report**  
**City of Port Orchard**

**For the period January 1, 2017 through December 31, 2017**

**Published September 24, 2018**

**Report No. 1022138**





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

September 24, 2018

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 January 1, 2017 through December 31, 2017

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

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

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

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

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

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

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

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

None reported.

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

None reported.



**CITY OF PORT ORCHARD**

**Finance Department**

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**City of Port Orchard**

**January 1, 2017 through December 31, 2017**

This schedule presents the status of federal findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2016 through December 31, 2016	<b>Report Ref. No.:</b> 1019802	<b>Finding Ref. No.:</b> 2016-001	<b>CFDA Number(s):</b> 20.205
<b>Federal Program Name and Granting Agency:</b> Department of Transportation Federal Highway Administration		<b>Pass-Through Agency Name:</b> Washington State Department of Transportation	
<b>Finding Caption:</b> The City did not have proper internal controls in place to ensure compliance with federal procurement requirements.			
<b>Background:</b> 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 evaluation the proposals. The City awarded a personal service contract totaling \$207,461 in 2013 of which \$53,142 was paid in 2016.			
<b>Status of Corrective Action: (check one)</b>			
<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid

**Corrective Action Taken:**

*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 updated 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 includes written policy and procedures; continuing education and staff training, and the assignment of an employee as procurement officer with strong department support.*

**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  
January 1, 2017 through December 31, 2017**

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, as of and for the year ended December 31, 2017, 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 17, 2018.

**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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 17, 2018.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 17, 2018

**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  
January 1, 2017 through December 31, 2017**

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

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

We have audited the compliance of the City of Port Orchard, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. 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, 2017.

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

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

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

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

September 17, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Port Orchard January 1, 2017 through December 31, 2017

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, as of and for the year ended December 31, 2017, 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, 2017, 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 and required supplementary information listed on page 17 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 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 17, 2018 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 17, 2018



## FINANCIAL SECTION

### City of Port Orchard January 1, 2017 through December 31, 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Funds – 2017

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of  
Governmental Funds to the Statement of Activities – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and  
Actual – General Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – LEOFF 1 Retiree Medical Progress – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS/LEOFF – 2017

Schedule of Employer Contributions – PERS/LEOFF – 2017

Notes to Required Supplemental Information – Pension – 2017

#### SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

## 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, 2017. 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, 2017, by \$106.2 million.
- Net investment in capital assets account for about 71 percent of this amount, with a value of \$75.0 million.
- Of the remaining net position, \$25.8 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction while \$5.4 million is restricted.
- The government's total net position shows an increase of \$12,740,672. The increase is due to reserve funds set aside per the City's financial policy, capital grants, and increases in proprietary funds charges for services.
- As of December 31, 2017, City of Port Orchard's governmental funds reported combined ending fund balances of \$13.8 million. Unassigned Fund Balance, approximately 23% of total fund balance is available for spending at the government's discretion. Of the remaining fund balance, \$2,610,804 is assigned, \$1,005,235 is committed fund balance and \$7,156,232 is restricted fund balance, restricted by laws, regulations or contracts external to the City.
- City of Port Orchard's total bonded debt had a net increase of \$5,659,286 during the fiscal year. The City issued \$5,865,000 in general obligation debt during the year. At December 31, 2017 the total outstanding bonded debt, including bond premiums, was \$6,291,075.

### 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 2017. 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 2017, 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 2017.

#### 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, Capital Construction Fund, and 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 \$106,176,066 at December 31, 2017. The following is a condensed version of the government-wide statement of net position.

	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities	Activities	Activities
	2017	2016	2017	2016	2017	2016
Current and other assets	\$16,994,667	\$10,090,456	\$23,340,285	\$18,941,917	\$40,334,952	\$29,032,373
Capital assets	35,681,026	28,833,605	44,220,986	41,949,377	79,902,012	70,782,982
Total assets	52,675,693	38,924,061	67,561,271	60,891,294	120,236,964	99,815,355
Deferred Outflows related to Pension	502,412	654,269	194,700	229,760	697,112	884,029
Total deferred outflows of resource	502,412	654,269	194,700	229,760	697,112	884,029
Long-Term liabilities	7,425,339	3,974,559	4,628,647	2,652,735	12,053,986	6,627,294
Liabilities Payable from Restricted Assets	870,050	211,092	0		870,050	211,092
Other liabilities	579,554	662,277	474,256	710,515	1,053,810	1,372,792
Total liabilities	8,874,943	4,847,928	5,102,903	3,363,250	13,977,846	8,211,178
Deferred Inflows related to Pension	620,398	38,567	157,496	22,088	777,894	60,655
Deferred Amount on Refunding	2,008	3,274	262	428	2,270	3,702
Total deferred inflows of resources	622,406	41,841	157,758	22,516	780,164	64,357
Net Position						
Net Investment in Capital Assets						
net of related debt	34,357,698	28,369,122	40,640,707	40,664,855	74,998,405	69,033,977
Restricted	5,415,285	4,003,873	0	0	5,415,285	4,003,873
Unrestricted	3,907,773	2,315,566	21,854,603	17,070,433	25,762,376	19,385,999
Total net position	\$43,680,756	\$34,688,561	\$62,495,310	\$57,735,288	\$106,176,066	\$92,423,850

The largest portion of the City's net position (70.6 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, \$5,415,285 is restricted and \$25,762,376 (unrestricted net position) represents the amount that may be used to meet the City's ongoing obligations.

At December 31, 2017, 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 2017, the City's total net position increased by \$13,752,217. The governmental net position increased \$8,992,195 and business-type activities increased \$4,760,022.

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	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,852,581	\$ 1,587,381	\$ 8,948,202	\$ 7,846,400	\$ 10,800,783	\$ 9,433,781
Operating grants & contributions	722,801	768,998	25,000	-	747,801	768,998
Capital grants & contributions	6,289,739	2,463,124	2,651,027	1,166,173	8,940,766	3,629,297
<b>General revenues:</b>						
Property taxes	2,670,848	2,434,074	-	-	2,670,848	2,434,074
Sales taxes	5,125,256	4,845,731	-	-	5,125,256	4,845,731
Other taxes	3,050,720	2,494,952	-	-	3,050,720	2,494,952
Interest income	36,406	19,039	99,823	35,108	136,229	54,147
Gain on sale of capital assets	53,873	15,967			53,873	15,967
Total Revenues	19,802,224	14,629,266	11,724,052	9,047,681	31,526,276	23,676,947
<b>Expenses:</b>						
General government	2,200,407	2,084,703	-	-	2,200,407	2,084,703
Judicial	555,095	534,256	-	-	555,095	534,256
Public safety	5,124,250	5,223,526	-	-	5,124,250	5,223,526
Transportation	2,322,364	2,626,628	-	-	2,322,364	2,626,628
Social services	16,474	14,499	-	-	16,474	14,499
Economic development	871,569	724,681	-	-	871,569	724,681
Culture and recreation	574,568	510,384	-	-	574,568	510,384
Water - Sewer	-	-	5,872,160	5,695,362	5,872,160	5,695,362
Storm Drainage	-	-	1,091,870	1,141,223	1,091,870	1,141,223
Interest on long-term debt	82,871	21,591	-	-	82,871	21,591
Total Expense	11,747,598	11,740,268	6,964,030	6,836,585	18,711,628	18,576,853
Change in net position	8,054,626	2,888,998	4,760,022	2,211,096	12,814,648	5,100,094
Net Position Beginning	34,688,561	31,799,563	57,735,288	55,524,192	92,423,849	87,323,755
Prior Period Adjustments	937,569				937,569	-
Net Position Ending	\$ 43,680,756	\$ 34,688,561	\$ 62,495,310	\$ 57,735,288	\$ 106,176,066	\$ 92,423,850

### Governmental Activity Analysis

Total revenues in governmental activities increased by 35%. The City's tax revenues increased by \$1,072,067 14% in 2017. The main sources of revenue came from retail sales and use tax and property taxes, as well as transportation benefit district vehicle fees. Sales tax increased from the prior year by \$279,525, 6%. Property taxes experienced an increase of \$236,774, 11%. Transportation benefit district fees were collected in 2017 for the first time in the amount of \$199,503. Charges for services increased by \$265,200, 17%. Revenue within the City is increasing inline with an increase in construction activity within the City. The building activity increases sales tax, property tax, and the number of building permits and development reviews within the City. Operating grants and contributions decreased by \$49,146, 6%. Capital grants and contributions increased by \$3,826,615 due to infrastructure that was donated in 2017 as well as grants received for Tremont Street and Bay Street Pedestrian Pathway.

Total expenses in governmental activities remained almost unchanged year-over-year, with only a marginal, 0.06% increase. The City incurred increases in the following functions: General Government \$115,704, Judicial \$20,839, and Economic Development \$146,888, Culture and Recreation \$64,184, Social Services \$1,975. While Public Safety decreased by \$99,276 and Transportation decreased by \$304,264. Culture & recreation had an increase due to additional professional services and event costs, and Economic development had an increase due to additional personnel costs and professional services costs related to development increases within the City. Transportation had a decrease due to higher than normal expenses in the prior year for paving overlay projects. The net position associated with governmental activities increased by \$8,992,195 due to capital grants & contributions for Tremont Street and Bay Street Pedestrian Pathway.

#### Business-Type Activities Analysis

The Water-Sewer Utility experienced an increase in 2017 operating revenues of 13.5%, and a 3.1% increase in operating expenses. The Water-Sewer Utility ended the year with an increase in net position of 7.9%. This was largely due to increased charges for services related to a rate increase. The Storm Drainage Utility had an increase in operating revenues of 1.2%, and a decrease in operating expenses of 8.0%. There was an overall increase in storm drainage net position of 9.7%. The Storm Drainage Utility's operating expenses decreased mainly due to less personnel costs within the Public Works Department.

### **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. Three funds are classified as major funds for the purposes of this report. They are the General Fund and the Street Capital Projects Fund.

The General Fund's fund balance increased by \$1,095,161. Revenues are higher and expenditures lower. The largest source of revenue is sales and use tax representing 42% of total revenues. The largest expenditure category is public safety, representing 47% of the General Fund activity.

The Capital Projects Fund had an increase in fund balance of \$50,499. This was due to transfers from other funds for projects and grants.

The Street Capital Projects Fund had an increase in fund balance of \$3,654,047. This was mainly due to the construction of Tremont Widening Project.

The change in total governmental funds' fund balance was an overall increase of \$5,828,900.

#### 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 \$49.5 million. This fund had operating income of \$775,976. The Water-Sewer fund had an increase in total net position of \$3,615,482 or 7.8%. This was largely due to increased charges for services related to a rate increase on water and sewer charges.

The Storm Drainage Utility Fund had an operating income of \$609,278. The total net position at year-end was \$13 million. This was an increase in net position of 9.7% or \$1,144,540. The increase was due to project funding for the Storm Drainage portion of Tremont Widening.

2017 Capital Projects for Water-Sewer included the Tremont Sewer Improvements and the Well 13 Project which is a new well the City is constructing.

## 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 a biennial budget process; state law allows additional funds to be expended if authorized by an ordinance amending the original budget. The City is in the first year of the biennial period which includes 2017 and 2018. Revenues ended the year at 52% of the biennial budget. Sales taxes was at 53% of the biennial budget while other taxes were at 49% of the biennial budget. Expenditures were 45% of the amended biennial budget.

The final budget, when compared to the original budget, showed increases (decreases) in: General Government \$12,000 for Community Development building expenses, Public Safety \$7,200 for the community service contract increase, and Economic Development (\$40,000) due to an expense being budgeted in the wrong fund.

## 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, 2017, amounts to \$79,902,012 (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	
	1/1/2017	12/31/2017	1/1/2017	12/31/2017	1/1/2017	12/31/2017
Land	\$2,196,485	\$2,469,070	\$983,923	\$977,923	\$3,180,408	\$3,446,993
Intangible Assets	3,747,291	6,298,071	1,157,425	1,326,975	4,904,716	7,625,046
Construction in Progress	3,060,642	6,664,022	2,772,768	3,724,817	5,833,410	10,388,839
Buildings	5,722,864	6,049,606	4,432,285	4,351,745	10,155,148	10,401,351
Equipment	1,105,457	1,007,002	1,659,754	1,840,106	2,765,212	2,847,109
Infrastructure	13,000,866	13,193,255	30,943,222	31,999,420	43,944,089	45,192,674
	<u>\$28,833,605</u>	<u>\$35,681,026</u>	<u>\$41,949,377</u>	<u>\$44,220,986</u>	<u>\$70,782,982</u>	<u>\$79,902,012</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 720 Prospect building. Machinery & Equipment decreased in 2017 due to reoccurring depreciation and retirements. Finally, Other Improvements increased due to developer donations.

In business activities Machinery & Equipment, Other Improvements and Intangible Assets increased due to developer donations. Land is decreased due to the sale of property. Wells 9 and 13, Tremont Sewer and Storm Drainage construction projects increased Construction in Progress. Buildings & Structures decreased due to depreciation.

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, 2017 the City of Port Orchard had total long-term debt outstanding of \$7,691,006. Of this amount, \$6,291,075 is general obligation bonds, \$146,550 is a note made with a private party, \$1,253,381 is Governmental Loans.

During 2017, the City of Port Orchard's net total long term debt increased by \$5,945,703. The increase was mainly due to the City issuing general obligations bonds in the amount of \$5,865,000. It also included increases to the Drinking Water State Revolving Fund Loan, and Clean Water State Revolving Fund Loan and annual payments on the outstanding debt.

Additional information on the City's long-term debt can be found in Note 9 and Note 11 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 9.2% 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 5.7%. 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 has picked up in 2017 and the first part of 2018 due to the recording of several final plats creating a large supply of ready to build residential lots. The City saw 77 new housing starts in 2017, but more importantly saw 4 final plats recorded in 2017 and 2 more in the first part of 2018 to resupply the City's home builders. The city expects that in excess of 150 new single-family homes will be started in the next 18 months. In 2017, the City also permitted a 38 unit apartment complex which should be

completed in the summer of 2018. In 2017, the city saw several commercial developments started including a new (to replace the old) Ford Dealership, a new big box retailer (Bi-Mart), and several smaller retail and service businesses constructed (a new Les Schwab store, automatic carwash, and self-storage facility). These projects are or should be completed in 2018, with several others in the pipeline for 2019. In addition, in 2018, two of the City's census tracts were designed as Opportunity Zones under the 2017 Tax Cuts and Jobs Act. This development incentive combined with other City development incentives and strong population growth is likely to ensure strong construction related growth for the foreseeable future.

The Office of Financial Management (OFM) reported Port Orchard's estimated 2017 population at 13,990. The City ranks 66 by population size of the 281 listed Washington Cities.

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, 2017

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 5,254,727	\$ 11,484,770	\$ 16,739,497
Receivables (Net of Allowance for Uncollectable)			
Taxes Receivable	63,490	-	63,490
Accounts Receivable	474,436	1,294,656	1,769,092
Due from Other Governmental Units	970,242	-	970,242
Restricted Assets:			
Cash and Cash Equivalents	8,045,774	1,502,445	9,548,219
Receivables	32,235	-	32,235
Due from Other Governmental Units	1,105,041	-	1,105,041
Investment in Joint Venture	-	9,058,414	9,058,414
Net Pension Asset	1,048,722		1,048,722
Capital Assets not being depreciated	15,390,045	5,962,238	21,352,283
Capital Assets (Net of Accumulated Depreciation)	20,290,981	38,258,748	58,549,729
Total Assets	<u>52,675,693</u>	<u>67,561,271</u>	<u>120,236,964</u>
<b>DEFERRED OUTFLOWS of RESOURCES</b>			
Deferred Outflows related to Pensions	502,412	194,700	697,112
Total Deferred Outflows of Resources	<u>502,412</u>	<u>194,700</u>	<u>697,112</u>
<b>LIABILITIES</b>			
Accounts Payable	371,932	218,450	590,382
Contracts Payable	-	114,301	114,301
Deposits	-	2,400	2,400
Custodial Accounts	7,136	-	7,136
Unearned Revenue	43,493	60,606	104,099
Other Accrued Liabilities	156,993	78,499	235,492
Liabilities Payable from Restricted Assets	870,050	-	870,050
Noncurrent Liabilities:			
Due within One Year	884,446	245,525	1,129,971
Due in More than One Year	4,579,282	3,407,454	7,986,736
Net Pension Liability	1,961,611	975,668	2,937,279
Total Liabilities	<u>8,874,943</u>	<u>5,102,903</u>	<u>13,977,846</u>
<b>DEFERRED INFLOWS of RESOURCES</b>			
Deferred Amount on Refunding	2,008	262	2,270
Deferred Inflows related to Pensions	620,398	157,496	777,894
Total Deferred Inflows of Resources	<u>622,406</u>	<u>157,758</u>	<u>780,164</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	34,357,698	40,640,707	74,998,405
Restricted for:			
Criminal Justice	505,822	-	505,822
Law Enforcement Investigative Funds	70,717	-	70,717
Tourism Promotion	125,151	-	125,151
Parks	320,410	-	320,410
McCormick Woods Park	39,509	-	39,509
Paths & Trails	7,219	-	7,219
Pensions	1,048,722	-	1,048,722
Transportation	1,513,433	-	1,513,433
Capital (REET)	1,784,302	-	1,784,302
Unrestricted	3,907,773	21,854,603	25,762,376
Total Net Position	<u>\$ 43,680,756</u>	<u>\$ 62,495,310</u>	<u>\$ 106,176,066</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, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT</b>							
Governmental Activities:							
General Government	\$ 2,200,407	\$ 297,535	\$ 168,766	\$ -	\$ (1,734,106)	\$ -	\$ (1,734,106)
Judicial	555,095	151,886	14,236	-	(388,973)	-	(388,973)
Public Safety	5,124,250	265,894	215,630	-	(4,642,726)	-	(4,642,726)
Transportation	2,322,364	522,944	315,780	6,152,984	4,669,344	-	4,669,344
Social Services	16,474	-	-	-	(16,474)	-	(16,474)
Economic Development	871,569	573,219	-	-	(298,350)	-	(298,350)
Culture and Recreation	574,568	41,103	8,389	136,755	(388,321)	-	(388,321)
Interest on Long-Term Debt	82,871	-	-	-	(82,871)	-	(82,871)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>11,747,598</b>	<b>1,852,581</b>	<b>722,801</b>	<b>6,289,739</b>	<b>(2,882,477)</b>	<b>-</b>	<b>(2,882,477)</b>
Business-Type Activities:							
Water - Sewer	5,872,160	7,229,665	-	2,184,608	-	3,542,113	3,542,113
Storm Drainage	1,091,870	1,718,537	25,000	466,419	-	1,118,086	1,118,086
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>6,964,030</b>	<b>8,948,202</b>	<b>25,000</b>	<b>2,651,027</b>	<b>-</b>	<b>4,660,199</b>	<b>4,660,199</b>
Total Primary Government	\$ 18,711,628	\$ 10,800,783	\$ 747,801	\$ 8,940,765	(2,882,477)	4,660,199	1,777,722
General Revenues:							
Taxes:							
Property Taxes Levied for General Purposes					2,670,848	-	2,670,848
Other Taxes					1,223,245	-	1,223,245
Sales and Use Taxes					5,125,256	-	5,125,256
Business and Occupation Taxes					1,781,657	-	1,781,657
Excise Taxes					45,818	-	45,818
Unrestricted Investment Earnings					36,406	99,823	136,229
Gain on Sale of Capital Assets					53,873	-	53,873
Total General Revenues					10,937,103	99,823	11,036,926
Change in Net Position					8,054,626	4,760,022	12,814,648
Net Position - Beginning					34,688,561	57,735,288	92,423,849
Prior Period Adjustment					937,569	-	937,569
Net Position - Ending					\$ 43,680,756	\$ 62,495,310	\$ 106,176,066

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

CITY OF PORT ORCHARD  
Governmental Funds  
Balance Sheet  
December 31, 2017

	General Fund	Capital Construction Fund	Street Capital Projects Fund	Other Non- Major Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 4,561,720	\$ 248,210	\$ 4,047,801	\$ 4,442,770	\$ 13,300,501
Property Taxes Receivables (net)	63,490	-	-	-	63,490
Accounts Receivable	474,436	-	-	32,235	506,671
Due from Other Governmental Units	970,242	-	1,046,027	59,014	2,075,283
<b>Total Assets</b>	<b>6,069,888</b>	<b>248,210</b>	<b>5,093,828</b>	<b>4,534,019</b>	<b>15,945,945</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts Payable	363,445	10,910	836,899	30,728	1,241,982
Deposits Payable	7,136	-	-	-	7,136
Other Accrued Liabilities	127,705	-	-	2,423	130,128
Unearned Revenue	43,493	-	-	-	43,493
<b>Total Liabilities</b>	<b>541,779</b>	<b>10,910</b>	<b>836,899</b>	<b>33,151</b>	<b>1,422,739</b>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue-Property Taxes	51,514	-	-	-	51,514
Unavailable Revenue-Court	357,516	-	-	32,235	389,751
Unavailable Revenue-Miscellaneous	11,806	-	84,533	-	96,339
<b>Total Deferred Inflows of Resources</b>	<b>420,836</b>	<b>-</b>	<b>84,533</b>	<b>32,235</b>	<b>537,604</b>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
Criminal Justice	-	-	-	505,822	505,822
Law Enforcement	-	-	-	70,717	70,717
Tourism	-	-	-	125,151	125,151
Parks	-	-	-	320,410	320,410
McWds Parks	-	-	-	39,509	39,509
Paths & Trails	-	-	-	7,219	7,219
Transportation	-	-	342,727	1,170,706	1,513,433
Capital Projects	-	-	2,789,669	1,784,302	4,573,971
<b>Committed to:</b>					
Recreation	159,031	-	-	-	159,031
Stabilization	846,204	-	-	-	846,204
<b>Assigned to:</b>					
Parks	-	-	-	-	-
City Hall	9,649	-	-	-	9,649
Street	879,058	-	-	-	879,058
Street Capital Projects	-	-	1,040,000	-	1,040,000
Capital Projects	-	237,300	-	-	237,300
Capital Equipment Replacement	-	-	-	444,797	444,797
Unassigned	3,213,331	-	-	-	3,213,331
<b>Total Fund Balances</b>	<b>5,107,273</b>	<b>237,300</b>	<b>4,172,396</b>	<b>4,468,633</b>	<b>\$ 13,985,602</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 6,069,888</b>	<b>\$ 248,210</b>	<b>\$ 5,093,828</b>	<b>\$ 4,534,019</b>	

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	35,681,026
Unavailable revenue to pay current year expenditures	537,604
Long-term liabilities that are not due and payable in the current period and are not reported in the funds	(7,454,212)
Net Pension Asset	1,048,722
Deferred Outflow related to Pensions	502,412
Deferred Inflow related to Pensions	(620,398)
Net position of governmental activities	<u>\$ 43,680,756</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, 2017

	General Fund	Capital Construction Fund	Street Capital Projects Fund	Other Non- Major Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property Taxes	\$ 2,696,140	\$ -	\$ -	\$ -	\$ 2,696,140
Retail Sales and Use Taxes	4,795,199	-	-	330,057	5,125,256
Other Taxes	2,081,958	-	-	968,762	3,050,720
License and Permits	445,721	-	-	-	445,721
Intergovernmental	553,506	48,500	2,706,153	74,217	3,382,376
Charges for Services	521,303	-	-	-	521,303
Fines and Forfeits	181,615	-	-	5,626	187,241
Interest Earnings	59,483	2,128	24,655	42,330	128,596
Rents and Royalties	167,285	-	1,002	-	168,287
Planning & Development Contributors	-	-	-	469,365	469,365
Contributions/Donations	6,524	-	-	-	6,524
Miscellaneous	27,188	-	-	1,016	28,204
<b>Total Revenues</b>	<b>11,535,922</b>	<b>50,628</b>	<b>2,731,810</b>	<b>1,891,373</b>	<b>16,209,733</b>
<b>Expenditures:</b>					
<b>Current</b>					
General Government	2,042,025	-	-	-	2,042,025
Judicial	555,095	-	-	-	555,095
Public Safety	4,840,776	-	-	155,997	4,996,773
Transportation	1,517,820	-	-	11,843	1,529,663
Economic Development	871,569	-	-	-	871,569
Social Services	16,474	-	-	-	16,474
Culture and Recreation	367,878	-	-	88,808	456,686
Capitalized Expenditures	13,493	330,680	4,012,330	140,364	4,496,867
<b>Debt Service</b>					
Principal Retirement	-	-	-	149,650	149,650
Interest/Fiscal Charges	-	-	40,401	17,024	57,425
<b>Total Expenditures</b>	<b>10,225,130</b>	<b>330,680</b>	<b>4,052,731</b>	<b>563,686</b>	<b>15,172,227</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>1,310,792</b>	<b>(280,052)</b>	<b>(1,320,921)</b>	<b>1,327,687</b>	<b>1,037,506</b>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	46,475	-	-	437	46,912
Compensation for Loss/Impair Capital Assets	6,961	-	-	-	6,961
Transfers In	-	330,551	1,172,710	214,674	1,717,935
Transfers Out	(1,151,500)	-	-	(566,435)	(1,717,935)
Debt Issued	-	-	3,799,952	-	3,799,952
<b>Total Other Financing Sources and Uses</b>	<b>(1,098,064)</b>	<b>330,551</b>	<b>4,972,662</b>	<b>(351,324)</b>	<b>3,853,825</b>
<b>Net Change in Fund Balances</b>	<b>212,728</b>	<b>50,499</b>	<b>3,651,741</b>	<b>976,363</b>	<b>4,891,331</b>
Fund Balance at Beginning of Year	4,012,112	186,801	518,349	3,439,440	8,156,702
Prior Period Adjustments	882,433	-	2,306	52,830	937,569
<b>Fund Balance at End of Year</b>	<b>\$ 5,107,273</b>	<b>\$ 237,300</b>	<b>\$ 4,172,396</b>	<b>\$ 4,468,633</b>	<b>\$ 13,985,602</b>

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, 2017

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

Net changes in fund balances - total governmental funds:	\$	4,891,331
<p>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.</p>		
		3,328,136
<p>The net effect of various miscellaneous transactions involving capital assets ( i.e., sales, trade-ins, and donations) to decrease net position.</p>		
		3,519,285
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(23,127)
<p>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.</p>		
		149,650
<p>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.</p>		
		(10,697)
Debt Issuance		(3,799,952)
Changes in Net Position (governmental activities)	<u>\$</u>	<u>8,054,626</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, 2017

	Budgeted Amounts		Actual Amount	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$ 3,310,000	\$ 3,310,000	\$ 1,744,987	\$ (1,565,013)
Sales and Use Taxes	9,167,000	9,167,000	4,795,199	(4,371,801)
Other Taxes	3,879,035	3,879,035	1,882,454	(1,996,581)
License and Permits	671,800	671,800	442,596	(229,204)
Intergovernmental	513,500	513,500	263,891	(249,609)
Charges for Services	1,048,350	1,048,350	517,634	(530,716)
Fines and Forfeits	444,000	444,000	181,587	(262,413)
Interest Earnings	65,539	65,539	44,579	(20,960)
Rents and Royalties	293,000	293,000	158,262	(134,738)
Contributions/Donations	-	-	2,568	2,568
Miscellaneous	-	-	22,591	22,591
Total Revenues	<u>19,392,224</u>	<u>19,392,224</u>	<u>10,056,348</u>	<u>(9,335,876)</u>
<b>Expenditures:</b>				
<b>Current</b>				
General Government	4,477,855	4,489,855	2,042,025	(2,447,830)
Judicial	1,249,808	1,249,808	555,095	(694,713)
Public Safety	10,579,338	10,586,538	4,840,776	(5,745,762)
Economic Development	1,906,762	1,866,762	871,569	(995,193)
Social Services	32,624	32,624	16,474	(16,150)
Culture and Recreation	900,627	900,627	367,878	(532,749)
Capitalized Expenditures	67,500	67,500	6,041	(61,459)
Intergovernmental Payments	-	-	-	-
Total Expenditures	<u>19,214,514</u>	<u>19,193,714</u>	<u>8,699,858</u>	<u>(10,493,856)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	177,710	198,510	1,356,490	1,157,980
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	-	-	2,612	2,612
Compensation for Loss/Impair Capital Assets	-	-	5,548	5,548
Transfers Out	(1,011,000)	(1,486,000)	(1,391,000)	95,000
Total Other Financing Sources and Uses	<u>(1,011,000)</u>	<u>(1,486,000)</u>	<u>(1,382,840)</u>	<u>103,160</u>
Net Change in Fund Balance	(833,290)	(1,287,490)	(26,350)	1,261,140
Fund Balances at Beginning of Year	1,806,400	2,416,050	2,568,202	152,152
Prior Period adjustments	-	-	840,159	
Fund Balances at End of Year	<u>\$ 973,110</u>	<u>\$ 1,128,560</u>	<u>\$ 3,382,011</u>	<u>\$ 1,413,292</u>
Adjustment to generally accepted accounting principles (GAAP) basis:				
City Street Fund			879,058	
Stabilization Fund			846,204	
Fund Balance - GAAP basis			<u>\$ 5,107,273</u>	

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, 2017

	Water-Sewer	Storm Drainage	Total Business Activities
<b>Assets:</b>			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 8,956,444	\$ 2,528,326	\$ 11,484,770
Receivables (net)			
Accounts	1,025,608	269,048	1,294,656
<i>Restricted Assets:</i>			
Cash and Cash Equivalents	-	1,502,445	1,502,445
Total Current Assets	<u>9,982,052</u>	<u>4,299,819</u>	<u>14,281,871</u>
<i>Non Current Assets:</i>			
Investment in Joint Venture	9,058,414	-	9,058,414
Property, Plant and Equipment (Net)	32,882,681	11,338,305	44,220,986
Total Non Current Assets	<u>41,941,095</u>	<u>11,338,305</u>	<u>53,279,400</u>
Total Assets	<u>51,923,147</u>	<u>15,638,124</u>	<u>67,561,271</u>
<i>Deferred Outflows of Resources</i>			
Deferred Outflows related to Pension	134,844	59,856	194,700
Total Deferred Outflows of Resources	<u>134,844</u>	<u>59,856</u>	<u>194,700</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	198,536	19,914	218,450
Contracts Payable	114,301	-	114,301
Other Accrued Liabilities	21,251	7,858	29,109
Deposits	2,400	-	2,400
Accrued Interest Payable	31,941	17,449	49,390
Accrued Employee Benefits	44,486	18,651	63,137
Bonds, Notes, Loans Payable	56,892	125,496	182,388
Total Current Liabilities	<u>469,807</u>	<u>189,368</u>	<u>659,175</u>
<i>Non Current Liabilities:</i>			
Bonds, Notes and Loan Payable (Net)	1,202,636	2,194,993	3,397,629
Accrued Employee Benefits	6,923	2,902	9,825
Net Pension Liability	675,721	299,947	975,668
Unearned Revenues	60,606	-	60,606
Total Non Current Liabilities	<u>1,945,886</u>	<u>2,497,842</u>	<u>4,443,728</u>
Total Liabilities	<u>2,415,693</u>	<u>2,687,210</u>	<u>5,102,903</u>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows related to Pensions	109,077	48,419	157,496
Deferred Amounts on Refunding	262	-	262
Total Deferred Inflows of Resources	<u>109,339</u>	<u>48,419</u>	<u>157,758</u>
<i>Net Position</i>			
Net Investment in Capital Assets	31,622,891	10,520,261	40,640,707
Unrestricted	17,910,068	2,442,090	21,854,603
Total Net Position	<u>\$ 49,532,959</u>	<u>\$ 12,962,351</u>	<u>\$ 62,495,310</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, 2017

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
Operating Revenues			
Charge for Services	\$ 6,628,635	\$ 1,659,432	\$ 8,288,067
Total Operating Revenues	<u>6,628,635</u>	<u>1,659,432</u>	<u>8,288,067</u>
Operating Expenses			
Operations			
General Operations	3,065,320	410,696	3,476,016
Water Purchased for Resale	465,393	-	465,393
Customer Service and Marketing	197,449	94,115	291,564
General Administration	1,032,708	242,997	1,275,705
Taxes	500,550	111,639	612,189
Depreciation, Amortization, Depletion	591,239	190,707	781,946
Total Operating Expenses	<u>5,852,659</u>	<u>1,050,154</u>	<u>6,902,813</u>
Operating Income (loss)	775,976	609,278	1,385,254
Nonoperating Revenues (Expenses)			
Interest Earnings	73,369	26,454	99,823
State and Federal Grants	-	25,000	25,000
Interest and Fiscal Charges	(19,501)	(41,716)	(61,217)
Gain (Loss) on Disposal of Assets	(3,789)	-	(3,789)
Net Income (Loss) of Joint Ventures	446,143	-	446,143
Fines & Penalties	84,558	35,021	119,579
Miscellaneous Revenue (Expense)	74,118	24,084	98,202
Total Nonoperating Revenues (Expenses)	<u>654,898</u>	<u>68,843</u>	<u>723,741</u>
Income (Loss) before Contributions	1,430,874	678,121	2,108,995
Capital Contributions	2,184,608	466,419	2,651,027
Increase (Decrease) in Net Position	3,615,482	1,144,540	4,760,022
Total Net Position at Beginning of Year	45,917,477	11,817,811	57,735,288
Total Net Position at End of Year	<u>\$ 49,532,959</u>	<u>\$ 12,962,351</u>	<u>\$ 62,495,310</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, 2017

	Major Enterprise Fund Water-Sewer	Major Enterprise Fund Storm Drainage	Total Business Activities
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	\$ 6,541,927	\$ 1,675,842	\$ 8,217,769
Cash Payments to Suppliers	(3,612,561)	(273,775)	(3,886,336)
Cash Payments to Employees	(1,383,604)	(609,732)	(1,993,336)
Cash Payments to other Governments (Taxes)	(500,550)	(111,639)	(612,189)
Cash Payments for other Non-Operating Activities	158,677	59,105	217,782
Net Cash Provided (Used) by Operating Activities	<u>1,203,889</u>	<u>739,801</u>	<u>1,943,690</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Receipt of Grant Funds	-	25,000	25,000
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>25,000</u>	<u>25,000</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and Construction of Capital Assets	(440,355)	(593,135)	(1,033,490)
Principal Paid on GO Bond	(55,350)	-	(55,350)
Principal Paid on Other Long-Term Obligations	(21,700)	-	(21,700)
Interest Paid on Revenue Bonds and Other Long-Term Debt	(6,296)	(24,482)	(30,778)
Proceeds from Capital Debt	215,284	92,833	308,117
Proceeds from GO Bond Issuance	-	2,065,048	2,065,048
Receipt of Capital Contributions	574,265	270,315	844,580
Proceeds from Disposal of Capital Assets	11,211	-	11,211
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>277,059</u>	<u>1,810,579</u>	<u>2,087,638</u>
<b>Cash Flows from Investing Activities:</b>			
Interest on Investments	73,369	26,454	99,823
Net Cash Provided (Used) by Investing Activities	<u>73,369</u>	<u>26,454</u>	<u>99,823</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,554,317	2,601,834	4,156,151
Cash and Cash Equivalents at Beginning of Year	7,402,127	1,428,937	8,831,064
Cash and Cash Equivalents at End of Year	<u>8,956,444</u>	<u>4,030,771</u>	<u>12,987,215</u>
Cash and Cash Equivalents	8,956,444	2,528,326	11,484,770
Restricted Cash and Cash Equivalents	-	1,502,445	1,502,445
Total Cash and Cash Equivalents	<u>\$ 8,956,444</u>	<u>\$ 4,030,771</u>	<u>\$ 12,987,215</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, 2017

	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)	\$ 775,976	\$ 609,278	\$ 1,385,254
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operations:			
Depreciation Expense	591,240	190,707	781,947
(Increase) Decrease in Receivables	(82,801)	16,410	(66,391)
Increase (Decrease) in Current Payables	(156,646)	(60,392)	(217,038)
Increase (Decrease) in Other Current Payables	(680)	(3,735)	(4,415)
Increase (Decrease) in Accrued Employee Benefits	(4,886)	(8,242)	(13,128)
Increase (Decrease) in Customer Deposits	(3,150)	-	(3,150)
Increase (Decrease) in Unearned Revenues	(758)	-	(758)
(Increase) Decrease in Pension Liability Expense	(73,083)	(63,332)	(136,415)
Receipt of Non Operating Revenues	158,677	59,105	217,782
Total Adjustments	427,913	130,521	558,434
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,203,889</u>	<u>\$ 739,799</u>	<u>\$ 1,943,688</u>
Noncash Investing, Financing and Capital Activities			
Capital Assets - Donated /Grants Received	1,610,343	466,419	2,076,762
Financed through Payable Liabilities		41,695	41,695
Gain / (Loss) on Joint Venture	446,143	-	446,143
Total Noncash Investing, Financing and Capital Activities	<u>\$ 2,056,486</u>	<u>\$ 508,114</u>	<u>\$ 2,564,600</u>

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, 2017

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	<u>Agency Funds</u>
<b>Assets:</b>	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 2,412,583
Total Assets	<u>2,412,583</u>
<b>Liabilities</b>	
Accounts Payable	13,596
Custodial Accounts	2,398,987
Total Liabilities	<u>\$ 2,412,583</u>

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

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 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**

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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. Ordinance No. 020-17 assuming the rights, powers, functions, immunities, and obligations of the Port Orchard Transportation Benefit District was passed in 2017.

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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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**

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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 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

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2017

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 within 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.

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.



CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2017

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 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

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##### 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

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2017

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

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### 1. Cash & Cash Equivalents

It is the city's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding \$27,196,185 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 2017 were approximately \$1,824,808.

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.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
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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, 2017.

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 2017, there were no interfund loans receivable and payable.

5. 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.

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6. 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	5-10

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

7. 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.

#### 8. 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 employee's medical health retirement/voluntary employee's beneficiary association account (HRA/VEBA). The remainder shall be forfeited without compensation.

#### 9. 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.

#### 10. Other Accrued Liabilities

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

#### 11. 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).

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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.

12. Unearned Revenue

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

	<b>Unearned</b>
South Kitsap School District-School Resource	\$ 43,493
Officer Program	
<b>Total</b>	<b>\$ 43,493</b>

13. 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 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 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

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### 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.

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.

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- An act of war, terrorism, or declaration of Martial law.

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

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

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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	\$ 4,110,202
Plus: Deferred charge on refunding (to be amortized as interest expense)	2,008
Plus: Issuance premium (to be amortized as interest expense)	787
Accrued interest payable	26,865
Other post employment benefits	817,573
Pension Liability	1,961,611
Compensated absences	<u>535,166</u>
<b>Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities</b>	<b><u>\$ 7,454,212</u></b>

**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**

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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:



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Current Year Capital outlay	\$ 4,496,867
Current Year Depreciation expense	(1,168,731)
<b>Net adjustment to decrease net changes in fund balances- total governmental funds to arrive at change in net position of governmental activities</b>	<b><u><u>\$ 3,328,136</u></u></b>

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	\$ 3,559,957
Sale of Capital Assets	(46,912)
Insurance Reimbursements	(6,961)
Gain (Loss) on Sale of Capital Assets	13,201
<b>Increase in Net Position</b>	<b><u><u>\$ 3,519,285</u></u></b>

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	\$ (67,416)
Tax revenues - unavailable	(25,292)
Due From Other Governments	36,033
Jail Medical	(22,659)
Grant received in Advance	(14,000)
Special Funding Situation-LEOFF 1	70,207
<b>Net adjustment to increase net changes in fund balances- total governmental funds to arrive at changes in net position of governmental activities</b>	<b><u><u>\$ (23,127)</u></u></b>

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	\$ (25,446)
Employee benefits accrual	37,641
Amortization of deferred amount on refunding	1,266
Amortization of bond premiums	522
OPEB	(116,482)
Pension Adjustment	91,802
<b>Net adjustment to decrease net changes in fund balances- total governmental funds to arrive at changes in net position of governmental activities</b>	<b><u><u>\$ (10,697)</u></u></b>

**NOTE 3. DEPOSITS AND INVESTMENTS**

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As of December 31, 2017, the City cash, cash equivalents, and investments as reported on the Statement of Net Position are as follows:

<b>Cash &amp; Cash Equivalents</b>	<b>City</b>	<b>Fiduciary</b>	<b>Total</b>
Cash on hand	\$ 3,750		\$ 3,750
Cash deposits in bank accounts	1,486,174	14,190	1,500,364
Washington State Local Government Investment Pool	15,864,537	1,387,933	17,252,470
Kitsap County Investment Pool	8,907,949	1,010,322	9,918,271
Kitsap Bank Money Market	25,306	138	25,444
<b>Total Cash and Cash Equivalents</b>	<b>\$26,287,716</b>	<b>\$ 2,412,583</b>	<b>\$ 28,700,299</b>

The City as of December 31, 2017, had investments of \$17,252,470 in the Washington State Local Government Investment Pool and \$9,918,271 in the Kitsap County Investment Pool, which are classified as cash equivalents. Additional cash & cash equivalents consist of \$25,444 held in interest bearing bank accounts.

**A. DEPOSITS**

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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 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**

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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 2017.

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.

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

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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, 2017, the City had the following investments at amortized cost.

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	\$ 15,864,537	\$ 1,387,933	\$ 17,252,470
<b>Total</b>		<b>\$ 15,864,537</b>	<b>\$ 1,387,933</b>	<b>\$ 17,252,470</b>

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 of Port Orchard is a participant in the Kitsap County Investment Pool (KCIP), an external investment pool. The county reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. Fair value is determined using quoted market prices from the county's safekeeping agent, Wells Fargo, and with Bloomberg, an online financial services system.

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

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As of December 31, 2017, 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)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Kitsap County Investment Pool	\$ 9,918,271	\$ 753,810	\$ 9,164,461	\$ -		
<b>Total</b>	<b>\$ 9,918,271</b>	<b>\$ 753,810</b>	<b>\$ 9,164,461</b>	<b>\$ -</b>		

The KCIP was established in 1987 pursuant to RCW 36.29, which authorizes the County Treasurer to invest the funds of participants. The Pool operates in accordance with Kitsap County Investment Policy which was established by the Kitsap County Finance Committee (KCFC). The KCFC consists of the County Treasurer, County Auditor and Chair of the Board of County Commissioners.

The KCIP is not registered with the Securities and Exchange Committee (SEC) as an investment company. KCFC performs oversight of the Pool’s performance. There are no legally binding guarantees for the KCIP. Authorized investments for the KCIP are the same as investments held outside the Pool and are defined in the Kitsap County Treasurer’s Office Investment Policy.

The KCIP external investment pool does not have a credit rating and had a weighted average maturity of 0.82 years as of December 31, 2017.

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 31<sup>st</sup> of the assessment year.

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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 2017 was \$1.761085 per \$1,000 on an assessed valuation of \$1,532,610,083 for a total regular levy of \$2,699,058.

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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**NOTE 5. CAPITAL ASSETS**

**A. CAPITAL ASSETS**

A summary of capital asset activity for the year ended December 31, 2017, was as follows:

	<b>Beginning Bal. 01/01/17</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Bal. 12/31/17</b>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land and other improvements	\$ 2,196,485	\$ 272,585	\$ -	\$ 2,469,070
Intangible Assets	3,700,132	2,556,821	-	6,256,953
Construction in progress	3,060,642	4,306,500	703,120	6,664,022
Total capital assets, not being depreciated	<u>8,957,259</u>	<u>7,135,906</u>	<u>703,120</u>	<u>15,390,045</u>
Capital assets, being depreciated/depleted:				
Buildings	8,196,466	493,929	-	8,690,395
Equipment	3,369,938	153,857	175,530	3,348,265
Infrastructure	30,302,808	967,251	31,672	31,238,387
Intangible Assets	118,124	-	-	118,124
Total capital assets being depreciated	<u>41,987,336</u>	<u>1,615,037</u>	<u>207,202</u>	<u>43,395,171</u>
Less accumulated depreciation for:				
Buildings	2,473,602	167,187	-	2,640,789
Equipment	2,264,480	252,313	175,530	2,341,263
Infrastructure	17,301,942	743,190	-	18,045,132
Intangible Assets	70,965	6,041	-	77,006
Total accumulated depreciation	<u>22,110,989</u>	<u>1,168,731</u>	<u>175,530</u>	<u>23,104,190</u>
Total capital assets, being depreciated, net	<u>19,876,347</u>	<u>446,306</u>	<u>31,672</u>	<u>20,290,981</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 28,833,606</u></b>	<b><u>\$ 7,582,212</u></b>	<b><u>\$ 734,792</u></b>	<b><u>\$ 35,681,026</u></b>

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

<b>Governmental activities:</b>	
General government	\$ 156,668
Security of persons and property	144,240
Transportation	790,613
Culture and recreation	77,210
<b>Total depreciation expense—governmental activities</b>	<b><u>\$ 1,168,731</u></b>

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	<b>Beginning Bal. 01/01/17</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Bal. 12/31/17</b>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated				
Land and other improvements	\$ 983,923	\$ 9,000	\$ 15,000	\$ 977,923
Intangible Assets	1,085,866	173,632	-	1,259,498
Construction in progress	2,772,768	952,049	-	3,724,817
Total capital assets, not being depreciated	<u>4,842,557</u>	<u>1,134,681</u>	<u>15,000</u>	<u>5,962,238</u>
Capital assets, being depreciated/depleted:				
Buildings	5,693,491	12,620	-	5,706,111
Equipment	5,406,209	377,168	28,395	5,754,982
Infrastructure	38,795,672	1,536,452	-	40,332,123
Intangible Assets	141,162	7,635	-	148,797
Total capital assets being depreciated	<u>50,036,534</u>	<u>1,933,875</u>	<u>28,395</u>	<u>51,942,013</u>
Less accumulated depreciation for:				
Buildings	1,261,207	93,159	-	1,354,366
Equipment	3,746,455	196,816	28,395	3,914,876
Infrastructure	7,852,449	480,254	-	8,332,703
Intangible Assets	69,603	11,717	-	81,320
Total accumulated depreciation	<u>12,929,714</u>	<u>781,946</u>	<u>28,395</u>	<u>13,683,265</u>
Total capital assets, being depreciated, net	<u>37,106,820</u>	<u>1,151,929</u>	<u>-</u>	<u>38,258,748</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 41,949,377</u></b>	<b><u>\$ 2,286,610</u></b>	<b><u>\$ 15,000</u></b>	<b><u>\$ 44,220,986</u></b>

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

<b>Business-type activities:</b>	
Water-Sewer	\$591,239
Storm Drainage	190,707
<b>Total depreciation expense-business-type activities</b>	<b><u>\$781,946</u></b>

**NOTE 6. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

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A. Construction Commitments

The City of Port Orchard has active construction projects as of December 31, 2017.

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

2017 Governmental Construction in Progress Activity:

Project	Spent to Date	Remaining Commitment
Bay Street Pedestrian Path	\$1,192,480	\$221,931
McCormick Park Phase II	242,222	8093
Old Clifton Anderson Hill Intersection	170,826	11,528
Tremont Street Widening	5,058,494	9,397,477
<b>Total</b>	<b>\$6,664,022</b>	<b>\$9,639,030</b>

2017 Business-type Construction in Progress Activity:

Project	Spent to Date	Remaining Commitment
Annapolis Creek Storm Drainage	\$ 564	\$ -
Marina Pump Station	\$48,840	-
Tremont Widening Water Mains	29,657	-
Tremont Widening Sewer Mains	216,479	591,422
Tremont Widening Storm Drainage	549,467	1,672,603
Water Rights & 2nd Wa Rights	178,018	106,511
Well #9	1,308,698	62,299
Well #13	856,318	-
Well #11	536,776	-
<b>Total</b>	<b>\$ 3,724,817</b>	<b>\$ 2,432,835</b>

**NOTE 7. PENSION PLANS**

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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 2017:



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<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	\$ 2,937,279
Pension assets	\$ 1,048,722
Deferred outflows of resources	\$ 697,112
Deferred inflows of resources	\$ 777,894
Pension expense/expenditures	\$ 373,600

### 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](http://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

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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 2017 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>

**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

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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 2017 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

The City’s actual PERS plan contributions were \$209,860 to PERS Plan 1 and \$280,795 to PERS Plan 2/3 for the year ended December 31, 2017.

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

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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 2017. 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 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 2017 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.59%</b>	<b>8.41%</b>
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.93%</b>	<b>8.75%</b>

The City’s actual contributions to the plan were \$111,163 for the year ended December 31, 2017.

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

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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, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$70,207.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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%

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 plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average remaining service lives calculation was revised.

### **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

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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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

**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, 2017, 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

**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	1,884,183	1,546,706	1,254,378
PERS 2/3	3,746,350	1,390,573	(539,636)
LEOFF 1	(72,691)	(97,997)	(119,730)
LEOFF 2	205,735	(950,725)	(1,892,960)

**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.

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

At June 30, 2017, the City reported a total pension liability of \$2,937,279 for its proportionate share of the net pension liabilities and \$1,048,722 for its share of net pension assets as follows:

Plan	Liability or Asset
PERS 1	1,546,706
PERS 2/3	1,390,573
LEOFF 1	(97,997)
LEOFF 2	(950,725)

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 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	(97,997)	(950,725)
LEOFF - State's proportionate share of the net pension asset associated with the employer	(662,851)	(616,717)
<b>TOTAL</b>	<b>(760,848)</b>	<b>(1,567,442)</b>

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.03137%	0.03260%	0.00123%
PERS 2/3	0.03649%	0.04002%	0.00353%
LEOFF 1	0.00637%	0.00646%	0.00009%
LEOFF 2	0.06280%	0.06851%	0.00571%

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, 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

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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 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2017, the City recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	151,345
PERS 2/3	212,864
LEOFF 1	(16,613)
LEOFF 2	26,005
<b>TOTAL</b>	<b>373,600</b>

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (57,719)
Contributions subsequent to the measurement date	114,419	-
<b>TOTAL</b>	<b>\$ 114,419</b>	<b>\$ (57,719)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 140,898	\$ (45,734)
Net difference between projected and actual investment earnings on pension plan investments	-	(370,693)
Changes of assumptions	14,771	-
Changes in proportion and differences between contributions and proportionate share of contributions	154,270	-
Contributions subsequent to the measurement date	161,796	-
<b>TOTAL</b>	<b>\$ 471,735</b>	<b>\$ (416,427)</b>



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LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	(9,106)
<b>TOTAL</b>	\$ -	\$ (9,106)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 41,786	\$ (36,053)
Net difference between projected and actual investment earnings on pension plan investments	-	(213,444)
Changes of assumptions	1,145	-
Changes in proportion and differences between contributions and proportionate share of contributions	9,286	(45,145)
Contributions subsequent to the measurement date	58,741	-
<b>TOTAL</b>	\$ 110,958	\$ (294,642)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 182,684	\$ (81,787)
Net difference between projected and actual investment earnings on pension plan investments	-	(650,962)
Changes of assumptions	15,916	-
Changes in proportion and differences between contributions and proportionate share of contributions	163,556	(45,145)
Contributions subsequent to the measurement date	334,956	-
<b>TOTAL</b>	\$ 697,112	\$ (777,894)

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, 2018. 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
2018	(39,014)	(115,011)	(5,715)	(100,922)
2019	12,317	70,505	1,541	19,341
2020	(2,860)	(9,740)	(615)	(17,515)
2021	(28,162)	(128,477)	(4,317)	(95,963)
2022		33,145		(8,548)
Therafter		43,090		(38,908)

**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

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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, 2017, 99 municipalities/entities participate in the AWC RMSA pool.

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

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2017, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

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

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

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.

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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 \$6,290,000 in general obligation bonds outstanding on December 31, 2017, for the construction of city hall and Tremont widening project.

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:

<u>Name of Issuance</u>	<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Debt Outstanding</u>
2003 LTGO Bond	Bus. Type & Gov't'l.	12/1/2019	2%-3.8%	\$ 3,000,000	\$ 425,000
2017 LTGO Bond	Bus. Type & Gov't'l. Activities	8/1/2032	2.09%	\$ 5,865,000	\$ 5,865,000
<b>Total General Obligation Bonds</b>					<b>\$ 6,290,000</b>

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:

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	367,800	89,320	457,120	172,200	46,134	218,334
2019	381,200	419,527	800,727	178,800	42,694	221,494
2020	227,500	70,506	298,006	122,500	37,964	160,464
2021	234,000	65,752	299,752	126,000	35,404	161,404
2022	237,250	60,861	298,111	127,750	32,772	160,522
2023-2027	1,267,500	227,618	1,495,118	682,500	122,564	805,064
2028-2032	1,394,952	89,390	1,484,342	770,048	48,132	818,180
	<b>\$ 4,110,202</b>	<b>\$ 1,022,974</b>	<b>\$ 5,133,176</b>	<b>\$ 2,179,798</b>	<b>\$ 365,664</b>	<b>\$ 2,545,462</b>

All bond issues comply with arbitrage regulations.

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**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.10/13 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. The city received 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 total loan amount is \$255,441 including issuance costs. The City's interest rate is 2.4%.

Total debt outstanding as of December 31, 2017, is as follows:

Name	Original Amount	Purpose	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
Bus.-Type Activities						
Drinking Water State Revolving Fund (DWSKR)						
	\$ -	Capital	4/8/2014	10/1/2038	1.50%	\$ 997,940
Water Quality Loan	\$255,441	Capital	11/10/2015	1/2/2037	2.40%	\$ 255,441
<b>Total Due to other Governments</b>						<b><u>\$ 1,253,381</u></b>

<b>Business Type Activities</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Total Requirements</b>
2018	9,996	6,529	16,525
2019	60,566	6,604	67,170
2020	60,825	6,345	67,170
2021	61,090	6,080	67,170
2022	61,362	5,809	67,171
2023-2027	311,120	24,734	335,854
2028-2032	318,970	16,884	335,854
2033-2037	319,555	8,036	327,591
2038	49,897	748	50,645
	<b><u>\$ 1,253,381</u></b>	<b><u>\$ 81,772</u></b>	<b><u>\$ 1,335,154</u></b>

**C. GOVERNMENT NOTE**

CITY OF PORT ORCHARD  
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Government note in business activity outstanding at year-end is as follows:

Name	Original Amount	Purpose	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
Bus.-Type Activities						
McCormick Note	\$441,250	Capital	11/23/1998	N/A	0.00%	\$ 146,550
<b>Total Note</b>						<b>\$ 146,550</b>

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 551<sup>st</sup> through the 800<sup>th</sup> connection. Payments are made no less frequent than quarterly. This type of note does not have a repayment schedule.

## 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 storage and an aquatic lands lease. 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 \$18,855 (with an inflation adjustment annually.) In 2017, \$18,855.48 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, 2017:

Year Ending December 31	Total
2018	44,065
2019	23,907
2020	21,477
<b>Total minimum payments required</b>	<b>89,449</b>

Total rent expense for the year ended December 31, 2017, was \$47,394.

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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, 2017:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities</b>					
Bonds payable:					
General obligation bonds	\$ 459,900	\$ 3,799,952	\$ 149,650	\$ 4,110,202	\$ 367,800
Premiums	1,309	-	522	787	522
Total bonds payable	461,209	3,799,952	150,172	4,110,989	368,322
Net Pension Liability	2,239,452	-	277,841	1,961,611	-
OPEB obligations	701,091	165,361	48,879	817,573	-
Compensated absences	572,807	-	37,641	535,166	516,124
<b>Governmental activity long-term liabilities</b>	<b>\$ 3,974,559</b>	<b>\$ 3,965,313</b>	<b>\$ 514,533</b>	<b>\$ 7,425,339</b>	<b>\$ 884,446</b>
<b>Business-type activities</b>					
Bonds payable:					
General obligation bonds	\$ 170,100	\$ 2,065,048	\$ 55,350	\$ 2,179,798	\$ 172,200
Premiums	480	-	192	288	192
Total bonds payable	170,580	2,065,048	55,542	2,180,086	172,392
Drinking Water State Revolving Fund Loan	782,656	215,284	-	997,940	-
Water Quality Loan	162,608	92,833	-	255,441	9,996
Private note	168,250	-	21,700	146,550	-
Net Pension Liability	1,282,551	-	306,883	975,668	-
Compensated absences	86,090	-	13,128	72,962	63,137
<b>Business-type activities long-term liabilities</b>	<b>\$ 2,652,735</b>	<b>\$ 2,373,165</b>	<b>\$ 397,253</b>	<b>\$ 4,628,647</b>	<b>\$ 245,525</b>

**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.

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2017

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

**NOTE 13. RESTRICTED COMPONENT OF NET POSITION**

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The government-wide statement of net position reports \$5,415,285 of restricted component of net position, all of which is restricted by enabling legislation.

**NOTE 14. INTERFUND TRANSFERS**

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A. INTERFUND TRANSFERS

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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 the Capital Construction fund receiving \$56,000 from the general fund for capital projects and \$274,551 from Real Estate Excise Tax fund for construction of the Permit Center. Street Capital Projects Fund received 1,047,500 from the general fund for cash flow for Capital Projects including Tremont Street, \$96,448 from Real Estate Excise Tax fund for the purchase of property for the Rockell Park, and \$28,762 from the Impact Fee Fund for the Old Clifton/Anderson Hill intersection project. The Cumulative Reserve for Capital Equipment received \$48,000 from the general fund for capital equipment, the bond debt service fund received \$166,674 from the Real Estate Excise tax fund for debt service for City Hall. The interfund transfer activity for 2017 is as follows:

		Transfer From		
		General Fund	Nonmajor Gov't Funds	Total
Transfer To	Capital Construction Fund	\$56,000	\$274,551	\$330,551
	Street Capital Projects	1,047,500	125,210	1,172,710
	Nonmajor Governmental Funds	48,000	166,674	214,674
	<b>Total</b>	<b>\$1,151,500</b>	<b>\$566,435</b>	<b>\$1,717,935</b>

CITY OF PORT ORCHARD  
Notes to Financial Statements  
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**NOTE 15. RECEIVABLES BALANCES**

**A. RECEIVABLES**

Receivables at December 31, 2017, were as follows:

	<b>Due from Other Gvts</b>	<b>Taxes</b>	<b>Other</b>	<b>Total</b>
<b>Governmental Activities:</b>				
General Fund taxes		\$ 1,033,224	\$ -	\$ 1,033,224
General Fund miscellaneous receivables	-	-	116,920	116,920
General Fund municipal court receivables	-	-	357,516	357,516
General Fund due from other governments	508	-	-	508
Special Investigative Unit court receivables	-	-	32,235	32,235
Criminal Justice fund due from other governr	-	40,548	-	40,548
Paths & Trails fund due from other government		210		210
Community events fund due from other gover	-	18,256	-	18,256
Street Capital Projects due from other gov	1,043,609	2,418	-	1,046,027
<b>Total Governmental Activities</b>	<b>\$ 1,044,117</b>	<b>\$ 1,094,656</b>	<b>\$ 506,671</b>	<b>\$ 2,645,444</b>
<b>Business Type Activities:</b>				
Water-Sewer accounts receivables	\$ -	\$ -	\$ 908,207	\$ 908,207
Water-Sewer soil clean-up receivable	-	-	117,401	117,401
Storm Drainage accounts receivable	-	-	269,049	269,049
<b>Total Business Type Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,294,657</b>	<b>\$ 1,294,657</b>

**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 2017, the change in the City's equity in the joint venture was a increase of \$446,143. 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, 2017 was \$9,058,414.

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



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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 2017 each entity paid \$200,000.

Name of Issuance	Purpose	Total			Interest Rate	Debt Outstanding
		Amount of Loan	First Draw Date	Maturity Date		
Public Works Trust Fund						
Loan 1	Capital	\$10,000,000	2/29/2004	7/1/2022	0.50%	\$2,762,975
Loan 2	Capital	\$6,800,000	6/30/2005	7/1/2024	0.50%	2,520,000
Joint Venture Total						5,282,975
<b>Total Loans</b>						<b>\$5,282,975</b>

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, 2017, 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**

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

CITY OF PORT ORCHARD  
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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 \$200,375, but only contributed \$48,879 at December 31, 2017. This \$48,879 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 \$817,573 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
2017	\$165,361	30%	\$817,573
2016	\$165,729	24%	\$701,091
2015	\$179,412	33%	\$575,696

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
12/31/2017	0	2,227,844	2,227,844	0%	0	N/A
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

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 3.00%, with a +or- 5.0% medical inflation sensitivity performed as of December 31, 2017. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB Obligation. The net OPEB obligation of \$817,573 is included as a non-current liability in the statement of net position.

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December 31, 2017

	<b>2017</b>
<b>Determination of Annual Required Contribution</b>	
Normal Cost at beginning of year	\$ -
Amortization of UAAL*	200,375
Annual Required Contribution (ARC) at year-end	200,375
 <b>Determination of Net OPEB Obligation</b>	
Actuarial Required Contribution (ARC 12/31/16)	200,375
Interest on Net OPEB Obligation (NOO)	28,043
Adjustment to NOO	(63,057)
Annual OPEB Cost	165,361
Employer Contributions	(48,879)
Increase (Decrease) in NOO	116,482
Net OPEB Obligation January 1, 2016	701,091
Net OPEB Obligation December 31, 2016	<b>\$ 817,573</b>

The City's percentage of annual OPEB cost contributed to the plan for 2017 is 30%.

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:

	<b>2017</b>	
<b>Retirees receiving medical benefits from the trust</b>	<b>Healthfirst</b>	<b>Healthfirst</b>
<b>Monthly Contributions:</b>	<b>R- 1000</b>	<b>R- 2500</b>
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**

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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, 2017, 261 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: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington 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 2017, 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 Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

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Notes to Financial Statements  
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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. OTHER DISCLOSURES**

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The Port Orchard Transportation Benefit District was established by Ordinance No. 027-15 in 2015. The district imposed a \$20 vehicle registration fee within the district boundaries which are the same as the corporate limits of the City. The district received its first revenue in 2017. The TBD had no activity in prior years. Subsequently, Ordinance No. 020-17 was passed pursuant to RCW 36.74 assuming all the rights, powers, functions, immunities, obligations of the Port Orchard TBD. All funds, credits, or other assets held in connection with the powers, duties, and functions of the Port Orchard TBD were transferred and assigned to the City in 2017. TBD revenues and expenditures are reported in the General Fund in the city's financial statements.

#### **NOTE 20. TAX ABATEMENT**

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The City enters into property tax abatement agreements with local businesses under the Multifamily Tax Exemption Program, which is authorized under Washington State RCW 84.14 and codified in Chapter 3.48 of the City Municipal code. Under the RCW, the City may grant property tax abatements of up to an approved period of eight, ten or twelve years for the approved value of newly constructed or rehabbed residential units. The purpose of this tax-exempt program is to increase residential opportunities, including affordable housing, in designated urban centers.

Tax abatement eligibility is as follows:

- An eight-year exemption is available for market-rate projects with an approved development agreement.
- Two tax exemption options are available for housing projects with an affordability component:
  - 8-year exemption for multifamily projects
  - 12-year exemption for multifamily projects with 20% of units designated as affordable housing

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For projects approved under this program, the owner has three years from the agreement being approved by council to obtain an occupancy permit. A Certificate of Tax Exemption is obtained by the property owner, which details the total exemption. The duration of the tax exemption is measured beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption. The new residential improvements are not added to the tax rolls until the exemption expires. However, land and other non-residential improvements are subject to property taxes.

All approved tax exemption projects are reviewed annually to ensure compliance with the program. If it is determined that the property owner is not complying with the terms of the agreement, the tax exemption will be canceled. This can occur in conjunction with the annual review or at any other time when the non-compliance has been determined. Additionally, owners of tax exemption projects are required to submit annual information to the City.

As of December 31, 2017, one agreement under this program have been approved by Council. This project is in the construction phase and no tax has been abated at this time.

**NOTE 21. TERMINATION BENEFITS**

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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 22. PRIOR PERIOD ADJUSTMENTS**

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Adjustments related to prior periods were a result of corrections made to the following funds that were considered to be of a material value:

Fund No.	Fund Description	Amount	Reason
001	General Fund	\$ 882,433	Correction for revenue recognition in the 60 day availability period
103	Criminal Justice Fund	37,156	Correction for revenue recognition in the 60 day availability period
107	Community Events Fund	15,474	Correction for revenue recognition in the 60 day availability period
108	Paths & Trails Fund	200	Correction for revenue recognition in the 60 day availability period
304	Street Capital Projects	2,306	Correction for revenue recognition in the 60 day availability period
		<b>\$ 937,569</b>	

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
12/31/2015	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
12/31/2017	0	\$2,247,199	\$2,247,199	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

Last Four 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
2017	0.032596%	\$ 1,549,706	\$ 3,862,158	40.13%	61.24%
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

Last Four 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
2017	0.004002%	\$ 1,390,573	\$ 3,783,688	36.75%	90.97%
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

Last Four 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
2017	0.006459%	\$ (97,997)	\$ (662,851)	\$ (760,848)	N/A	N/A	135.96%
2016	0.006368%	(65,609)	(443,775)	(509,384)	N/A	N/A	123.74%
2015	0.064232%	(75,929)	(513,582)	(589,511)	N/A	N/A	127.36%
2014	0.062480%	(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  
Last Four 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			
2017	0.068512%	\$ (950,725)	\$ (616,717)	\$ 2,068,408	-45.96%	113.36%
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  
 Last Four Calendar 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
2017	\$ 209,860	\$ (209,860)	\$ -	\$ 4,165,073	5.04%
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  
 Last Four Calendar 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
2017	\$ 280,795	\$ (280,795)	\$ -	\$ 4,083,102	6.88%
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  
 Last Four Calendar Years

Year Ended December 31,	Statutorily or contractually required contributions	relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
	\$	\$	\$	\$	
2017	-	-	-	N/A	N/A
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  
 Last Four Calendar 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
2017	\$ 111,163	\$ (111,163)	\$ -	\$ 2,128,665	5.22%
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 Four Calendar 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. Eventually, ten years of data will be presented.

**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 presented in accordance with GASB 82, *Pension Issues*. Covered payroll includes all payroll on which a contribution is based.

**Note 5:** Change in contribution rate

The employer contribution rates for both PERS 1 and PERS 2/3 plans increased from 11.18% to 12.70% for pay periods beginning July 2017.



**City of Port Orchard**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

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		
<b>Highway Planning and Construction Cluster</b>								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPH-6610 (004) / LA-5855	737,380	-	737,380	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPE-0166 (008) / LA-6165	379,274	-	379,274	-	
<b>Total Highway Planning and Construction Cluster:</b>				<b>1,116,654</b>	<b>-</b>	<b>1,116,654</b>	<b>-</b>	
<b>Highway Safety Cluster</b>								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	n/a	3,601	-	3,601	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	n/a	488	-	488	-	
<b>Total Highway Safety Cluster:</b>				<b>4,089</b>	<b>-</b>	<b>4,089</b>	<b>-</b>	
United States Coast Guard (uscg), Department Of Homeland Security (via WA State Parks & Recreation Commission)	Boating Safety Financial Assistance	97.012	n/a	11,699	-	11,699	-	
<b>Total Federal Awards Expended:</b>				<b>1,132,443</b>	<b>-</b>	<b>1,132,443</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

CITY OF PORT ORCHARD  
Notes to Schedule of Expenditures of Federal Awards  
January 1, 2017 through December 31, 2017

**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. – 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; roundabouts 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.

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.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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