



Office of the Washington State Auditor

Pat McCarthy

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

## **City of Port Orchard**

**For the period January 1, 2019 through December 31, 2019**

**Published December 24, 2020**

**Report No. 1027482**





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

December 24, 2020

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,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### City of Port Orchard January 1, 2019 through December 31, 2019

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

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

##### Financial Statements

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

##### Internal Control over Financial Reporting:

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

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

##### Federal Awards

##### Internal Control over Major Programs:

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

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

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

## Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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.

**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, 2019 through December 31, 2019**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Port Orchard, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 16, 2020.

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

As discussed in Note 6 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City.

## 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 December 16, 2020.

## 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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

December 16, 2020



**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, 2019 through December 31, 2019**

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, 2019. 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, 2019.

## **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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

December 16, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Port Orchard January 1, 2019 through December 31, 2019

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Port Orchard, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Port Orchard, and its changes in cash and investments, for the year ended December 31, 2019, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

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

## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Port Orchard, as of December 31, 2019, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Matters of Emphasis**

As discussed in Note 6 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Supplementary and Other Information***

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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Pat McCarthy  
State Auditor  
Olympia, WA

December 16, 2020

## **FINANCIAL SECTION**

### **City of Port Orchard January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

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

Schedule of Liabilities – 2019  
Schedule of Expenditures of Federal Awards – 2019  
Notes to the Schedule of Expenditures of Federal Awards – 2019



**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Total for All Funds (Memo Only)</b>	<b>001 Current Expense</b>	<b>103 Criminal Justice</b>	<b>104 Special Investigative Unit</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	5,634,777	-	513,801	78,461
30880	Unreserved	19,750,584	6,154,119	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	11,941,084	10,518,513	256,159	-
320	Licenses and Permits	537,142	532,192	-	-
330	Intergovernmental Revenues	6,666,759	589,321	60,851	-
340	Charges for Goods and Services	14,143,346	667,440	-	-
350	Fines and Penalties	405,053	266,983	-	4,691
360	Miscellaneous Revenues	1,995,045	408,846	10,675	14,678
Total Revenues:		35,688,429	12,983,295	327,685	19,369
<b>Expenditures</b>					
510	General Government	2,761,661	2,761,661	-	-
520	Public Safety	5,875,826	5,381,592	491,209	3,025
530	Utilities	7,939,067	-	-	-
540	Transportation	2,310,673	1,915,439	-	-
550	Natural and Economic Environment	1,052,073	949,669	-	-
560	Social Services	16,216	16,216	-	-
570	Culture and Recreation	671,037	671,037	-	-
Total Expenditures:		20,626,553	11,695,614	491,209	3,025
Excess (Deficiency) Revenues over Expenditures:		15,061,876	1,287,681	(163,524)	16,344
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	1,441,391	-	-	-
397	Transfers-In	9,672,250	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	31,874	2,001	-	-
381, 382, 395, 398	Other Resources	100,123	71,839	-	-
Total Other Increases in Fund Resources:		11,245,638	73,840	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	9,447,789	-	-	-
591-593, 599	Debt Service	726,977	-	-	-
597	Transfers-Out	9,672,250	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	44,475	33,675	-	-
Total Other Decreases in Fund Resources:		19,891,491	33,675	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>6,416,023</b>	<b>1,327,846</b>	<b>(163,524)</b>	<b>16,344</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	6,630,144	-	350,277	94,805
5088000	Unreserved	25,171,239	7,481,965	-	-
<b>Total Ending Cash and Investments</b>		<b>31,801,383</b>	<b>7,481,965</b>	<b>350,277</b>	<b>94,805</b>

The accompanying notes are an integral part of this statement.

**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>107 Community Events</b>	<b>108 Paths &amp; Trails</b>	<b>109 Real Estate Excise Tax</b>	<b>111 Impact Mitigation Fee</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	135,246	8,457	2,009,946	1,440,068
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	115,292	-	1,051,120	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	1,254	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	3,738	207	55,584	371,900
Total Revenues:		119,030	1,461	1,106,704	371,900
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	51,043
550	Natural and Economic Environment	102,404	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		102,404	-	-	51,043
Excess (Deficiency) Revenues over Expenditures:		16,626	1,461	1,106,704	320,857
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	660,093	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	660,093	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>16,626</b>	<b>1,461</b>	<b>446,611</b>	<b>320,857</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	151,872	9,918	2,456,557	1,760,925
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>151,872</b>	<b>9,918</b>	<b>2,456,557</b>	<b>1,760,925</b>

The accompanying notes are an integral part of this statement.

**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>206 Bond Redemption Fund</b>	<b>302 Capital Construction</b>	<b>304 Street Capital Projects</b>	<b>401 Water- Sewer Utilities</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	1,448,798	-
30880	Unreserved	-	348,715	638,302	8,965,285
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	287,575	5,397,490	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	3,878	56,077	46,872
Total Revenues:		-	291,453	5,453,567	46,872
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		-	291,453	5,453,567	46,872
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	462,357	197,736	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		462,357	197,736	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	536,813	5,072,721	-
591-593, 599	Debt Service	462,357	-	-	-
597	Transfers-Out	-	-	-	9,012,157
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		462,357	536,813	5,072,721	9,012,157
<b>Increase (Decrease) in Cash and Investments:</b>		-	<b>(47,624)</b>	<b>380,846</b>	<b>(8,965,285)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	1,777,742	-
5088000	Unreserved	-	301,091	690,204	-
<b>Total Ending Cash and Investments</b>		-	<b>301,091</b>	<b>2,467,946</b>	-

The accompanying notes are an integral part of this statement.

**City of Port Orchard**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>411 Water Utility</b>	<b>421 Storm Drainage Utility</b>	<b>431 Sewer Utility</b>	<b>500 Equipment Rental and Revolving</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	-	2,561,520	-	1,082,643
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	4,950	-	-
330	Intergovernmental Revenues	-	330,268	-	-
340	Charges for Goods and Services	3,113,568	1,694,091	5,091,905	3,576,342
350	Fines and Penalties	39,067	25,935	68,377	-
360	Miscellaneous Revenues	523,721	57,028	398,517	43,324
Total Revenues:		3,676,356	2,112,272	5,558,799	3,619,666
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	2,533,833	1,532,093	3,873,141	-
540	Transportation	-	-	-	344,191
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,533,833	1,532,093	3,873,141	344,191
Excess (Deficiency) Revenues over Expenditures:		1,142,523	580,179	1,685,658	3,275,475
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	1,441,391	-	-	-
397	Transfers-In	4,115,438	-	4,896,719	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	29,873	-
381, 382, 395, 398	Other Resources	8,125	1,200	-	18,959
Total Other Increases in Fund Resources:		5,564,954	1,200	4,926,592	18,959
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,976,616	636,125	698,748	526,766
591-593, 599	Debt Service	56,728	177,764	30,128	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	9,600	1,200	-	-
Total Other Decreases in Fund Resources:		2,042,944	815,089	728,876	526,766
<b>Increase (Decrease) in Cash and Investments:</b>		<b>4,664,533</b>	<b>(233,710)</b>	<b>5,883,374</b>	<b>2,767,668</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	28,048
5088000	Unreserved	4,664,533	2,327,810	5,883,373	3,822,263
<b>Total Ending Cash and Investments</b>		<b>4,664,533</b>	<b>2,327,810</b>	<b>5,883,373</b>	<b>3,850,311</b>

The accompanying notes are an integral part of this statement.

**City of Port Orchard**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Total for All Funds (Memo Only)</b>	<b>Custodial</b>
308	Beginning Cash and Investments	2,553,945	2,553,945
388 & 588	Net Adjustments	-	-
310-390	Additions	1,392,242	1,392,242
510-590	Deductions	1,322,373	1,322,373
	Net Increase (Decrease) in Cash and Investments:	69,869	69,869
508	Ending Cash and Investments	2,623,814	2,623,814

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

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

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

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

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

**A. Fund Accounting**

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

**GOVERNMENTAL FUND TYPES:**

**General Fund**

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

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2019

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2019

C. Cash and Investments

See Note 3, Deposits and Investments.

D. Capital Assets

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

E. Compensated Absences

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

F. Long-Term Debt

See Note 5, Debt Service Requirements.

G. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of \$6,630,144.

**Note 2 – Budget Compliance**

A. Budgets

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



CITY OF PORT ORCHARD  
Notes to Financial Statements  
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Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

<b>Fund</b>	<b>Final Appropriated Biennial Budget 2019-2020</b>	<b>2019 Actual Expenditures</b>	<b>Variance</b>
<b>Fund: 001 - Current Expense</b>	\$ 25,486,196	\$ 10,663,852	\$ 14,822,344
<b>Fund: 002 - City Street Fund</b>	\$ 4,502,462	\$ 1,915,436	\$ 2,587,026
<b>Fund: 003 - Stabilization Fund</b>	\$ 2,100,000	\$ -	\$ 2,100,000
<b>Fund: 103 - Criminal Justice</b>	\$ 1,003,101	\$ 491,209	\$ 511,892
<b>Fund: 104 - Special Investigative Unit</b>	\$ 85,461	\$ 3,025	\$ 82,436
<b>Fund: 107 - Community Events</b>	\$ 335,246	\$ 102,403	\$ 232,843
<b>Fund: 108 - Paths &amp; Trails</b>	\$ 10,457	\$ -	\$ 10,457
<b>Fund: 109 - Real Estate Excise Tax</b>	\$ 3,409,946	\$ 660,093	\$ 2,749,853
<b>Fund: 111 - Impact Mitigation Fee</b>	\$ 1,720,068	\$ 51,043	\$ 1,669,025
<b>Fund: 206 - Bond Redemption Fund</b>	\$ 757,383	\$ 462,357	\$ 295,026
<b>Fund: 302 - Capital Construction</b>	\$ 973,715	\$ 536,812	\$ 436,903
<b>Fund: 303 - Cumulative Reserve for Equipment Replacement</b>	\$ -	\$ -	\$ -
<b>Fund: 304 - Street Capital Projects</b>	\$ 6,603,094	\$ 5,072,721	\$ 1,530,373
<b>Fund: 401 - Water-Sewer Utilities</b>	\$ 3,435,558	\$ 3,426,725	\$ 8,833
<b>Fund: 403 - Water-Sewer Cumulative Reserve</b>	\$ 5,599,427	\$ 5,585,431	\$ 13,996
<b>Fund: 411 - Water Operating</b>	\$ 8,145,079	\$ 2,773,561	\$ 5,371,518
<b>Fund: 412 - Water Stabilization</b>	\$ 390,000	\$ -	\$ 390,000
<b>Fund: 413 - Water Capital</b>	\$ 8,845,444	\$ 2,003,216	\$ 6,842,228
<b>Fund: 414 - Water Debt Service</b>	\$ 130,128	\$ 56,728	\$ 73,400
<b>Fund: 421 - Storm Drainage Utility</b>	\$ 5,062,657	\$ 1,876,056	\$ 3,186,601
<b>Fund: 422 - Storm Drainage Stabilization</b>	\$ 175,200	\$ -	\$ 175,200
<b>Fund: 423 - Storm Drainage Capital Facil</b>	\$ 969,703	\$ 636,125	\$ 333,578
<b>Fund: 424 - Storm Drainage Debt Service</b>	\$ 354,754	\$ 177,764	\$ 176,990
<b>Fund: 431 - Sewer Operating</b>	\$ 12,143,379	\$ 4,505,088	\$ 7,638,291
<b>Fund: 432 - Sewer Stabilization</b>	\$ 606,700	\$ -	\$ 606,700
<b>Fund: 433 - Sewer Capital</b>	\$ 10,670,483	\$ 676,498	\$ 9,993,985
<b>Fund: 434 - Sewer Debt Service</b>	\$ 30,128	\$ 30,128	\$ -
<b>Fund: 500 - Equipment Rental and Revolving</b>	\$ 5,391,677	\$ 870,957	\$ 4,520,720

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

CITY OF PORT ORCHARD  
Notes to Financial Statements  
December 31, 2019

**Note 3—Deposits and Investments**

The City is currently invested in two public funds investment pools, Washington State Local Government Investment Pool (LGIP) and Kitsap County Investment Pool (KCIP), which are reported at amortized cost. Investments by type at December 31, 2019 are as follows:

Type of Investment	City's Own Investments	Investment held by city as an agency for other local governments	Total
Cash on Deposit	\$ 2,319,774	\$ 73	\$ 2,319,848
Washington State Local Government Investment Pool (LGIP)	\$ 19,328,761	\$ 1,461,401	\$ 20,790,163
Kitsap County Investment Pool (KCIP)	\$ 10,152,849	\$ 1,162,339	\$ 11,315,188
<b>Total</b>	<b>\$ 31,801,385</b>	<b>\$ 2,623,814</b>	<b>\$ 34,425,199</b>

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

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

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

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

**Investments in Kitsap County Investment Pool**

The city is an involuntary participant in the Kitsap County Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The city reports its investment in the pool at amortized cost, which is the same as the

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value of the pool per share. The KCIP does not impose liquidity fees or redemption gates on participant withdrawals.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The city's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

**Compensating Balances**

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balance maintained during 2019 was approximately \$2,115,079.

**Note 4 - Property Tax**

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

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

The City's regular levy for the year 2019 was \$1.536781 per \$1,000 on an assessed valuation of \$1,849,694,593 for a total regular levy of \$2,843,025.

**Note 5 – Debt Service Requirements**

**Debt Service**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2019.

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

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Due Date	Principal Amount	Interest Amount	Total Amount
2020	517,632	187,745	705,377
2021	527,897	108,653	636,550
2022	533,168	100,858	634,026
2023	543,447	92,951	636,398
2024	548,732	84,828	633,560
2025-2029	2,821,330	296,623	3,117,954
2030-2034	2,119,566	76,253	2,195,819
2035-2037	328,527	5,784	334,311
<b>Grand Total</b>	<b>7,940,299</b>	<b>953,695</b>	<b>8,893,994</b>

### **Note 6 – OPEB Plans**

During the year ended 12/31/2019, the city adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2018, the plan had four members, all retirees. As of December 31, 2019, the city's total OPEB liability was \$2,006,700, as calculated using the alternative measurement method. For the year ended December 31, 2019 the City paid \$35,211 in benefits.

### **Note 7 – Pension Plans**

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

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

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that

CITY OF PORT ORCHARD  
Notes to Financial Statements  
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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

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

At June 30, 2019, the City's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	<b>Employer</b>		
	<b>Contributions</b>	<b>Allocation %</b>	<b>Liability (Asset)</b>
<b>PERS 1</b>	\$ 221,728	0.030923%	\$ 1,189,099
<b>PERS 2/3</b>	\$ 322,804	0.039524%	\$ 383,912
<b>LEOFF 1</b>	\$ -	0.006643%	\$ (131,306)
<b>LEOFF 2</b>	\$ 108,718	0.058967%	\$ (1,366,084)

#### LEOFF Plan 1

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

#### LEOFF Plan 2

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

### **Note 8 – Risk Management**

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

CITY OF PORT ORCHARD  
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December 31, 2019

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, 2019, 100 municipalities/entities participate in the AWC RMSA pool.

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

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Great American 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 2019, AWC RMSA carried a retention of \$200,000 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.

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

**Note 9. Joint Ventures**

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

The Utility District is responsible for the daily operation of the facility. The participants pay their share of the expenses based on their portion of flow into the facility. The City and the District pay the joint venture an amount determined during the budget process to cover maintenance, operation, capital improvements and debt monthly. The current cost sharing is 49% 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 2019 each entity paid \$200,000.

**Note 10. Other Disclosures**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

At the time of this annual report filing the financial impact to the city is undetermined. However, the City anticipates an increase in unbudgeted expenditures as well as a reduction in revenue due to the spread of the virus.

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

**City of Port Orchard  
Schedule of Liabilities  
For the Year Ended December 31, 2019**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	G O Debt	12/1/2032	5,750,000	-	560,000	5,190,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>5,750,000</b>	<b>-</b>	<b>560,000</b>	<b>5,190,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		718,108	-	9,674	708,434
263.62	Notes Payable	12/31/2043	88,450	-	26,600	61,850
264.30	Pension Liabilities		2,111,106	-	538,094	1,573,012
263.82	Drinking Water State Revolving Fund Loan	10/1/2038	1,012,282	1,441,391	-	2,453,673
263.82	Water Quality Loan	1/2/2037	245,444	-	10,669	234,775
264.40	OPEB Liabilities		1,921,208	85,492	-	2,006,700
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>6,096,598</b>	<b>1,526,883</b>	<b>585,037</b>	<b>7,038,444</b>
<b>Total Liabilities:</b>			<b>11,846,598</b>	<b>1,526,883</b>	<b>1,145,037</b>	<b>12,228,444</b>



**City of Port Orchard**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures				
				From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPH-6610 (004) / LA-5855	1,422,954	-	1,422,954	-	
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	STPE-0166 (008) / LA-6165	61,895	-	61,895	-	
Total Highway Planning and Construction Cluster:				1,484,849	-	1,484,849	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	n/a	3,534	-	3,534	-	
Total Highway Safety Cluster:				3,534	-	3,534	-	
U.S. COAST GUARD, HOMELAND SECURITY, DEPARTMENT OF (via WA State Parks & Recreation Commission)	Boating Safety Financial Assistance	97.012	n/a	11,616	-	11,616	-	
Total Federal Awards Expended:				1,499,999	-	1,499,999	-	

CITY OF PORT ORCHARD  
Notes to Schedule of Expenditures of Federal Awards  
January 1, 2019 through December 31, 2019

**NOTE 1. BASIS OF ACCOUNTING**

This Schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the cash basis of accounting, in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. The City converted from GAAP to Cash basis beginning with the year 2018.

**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 grant will widen Tremont Street to provide four continuous lanes between Port Orchard Blvd and SR 16. Including curb, gutter, and sidewalks; 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.

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