



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

City of Gig Harbor

Pierce County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012715





Washington State Auditor
Troy Kelley

September 29, 2014

Mayor and City Council
City of Gig Harbor
Gig Harbor, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Gig Harbor'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,

TROY KELLEY
STATE AUDITOR

TABLE OF CONTENTS

Federal Summary	4
Schedule Of Federal Audit Findings And Questioned Costs.....	6
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	19
Independent Auditor’s Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	21
Independent Auditor’s Report On Financial Statements	24
Financial Section.....	27
Corrective Action Plan For Findings Reported Under OMB Circular A-133	80
About The State Auditor’s Office.....	82

Federal Summary

City of Gig Harbor Pierce County January 1, 2013 through December 31, 2013

The results of our audit of the City of Gig Harbor are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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 deficiencies that we consider to be material weaknesses.

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.251	Economic Development Initiative
15.608	Fish and Wildlife Management Assistance

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

**City of Gig Harbor
Pierce County
January 1, 2013 through December 31, 2013**

1. The City does not have adequate internal controls to ensure compliance with reporting requirements.

CFDA Number and Title:	14.251 Economic Development Initiative
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	B-10-NI-WA-0006
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

In 2013 the City spent \$ 1,200,884 in Economic Development Initiative grant funds to perform intersection improvements of three main arterials that connect the City's downtown districts.

During our audit, we identified a material weakness in internal controls over reporting, causing noncompliance with grant reporting requirements.

The U.S. Department of Housing and Urban Development requires the completion of a performance report every six months after the effective date of the grant agreement. The performance report is made up of two parts: the Federal Financial Report (SF-425) and the narrative of work accomplished during the reporting period. The City did not prepare or submit the narrative of work accomplished for the reporting period of July 1, 2013 through December 31, 2013.

Additionally, the City was required to provide a final performance report at the close-out of the project, 30 days after the City had drawn down all funds. The City did not submit the final report to close-out the grant until they were contacted by the grantor and were requested to do so, causing the final performance report to be submitted seven months late.

These reports are an important factor in funding and other program related decisions made by the granting agency.

Cause of Condition

The financial reports are completed by the finance department while the performance reports/narratives are completed by the engineering department. We determined a lack of communication between the departments, coupled with changes in the individuals responsible for reporting, caused confusion as to who is responsible for each report. Additionally, the City was unaware of the importance of submitting timely interim (semi-annual) reports.

Effect of Condition and Questioned Costs

The City did not provide necessary reporting information to its grantor. Without this information, the federal agency does not have the information it may need to make future funding and other program-related decisions.

Recommendation

We recommend the City establish internal controls to ensure all required reports are prepared and submitted to the grantor in a timely manner.

City's Response

The City has reviewed the internal controls and communications between the finance department and the engineering department and is committed to updated controls to ensure this condition does not occur in the future. Due to the timing of the project milestones and reimbursement requests, the City incorporated the missing quarterly update information into the final reporting and did not submit separate interim reports. The City is now aware of the importance of interim reporting and has implemented controls to ensure future interim reports will be submitted in a timely fashion. It is the City's opinion that communication between the departments was adequate; there was simply a misunderstanding of the necessity of submitting interim reports with minimal or no new information.

Auditor's Remarks

We thank the City for its cooperation and assistance throughout the audit, and the steps it is taking to address this issue. We will review the status of the City's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

- (a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

CFDA No. 14.251

Grant Agreement No. B-10-NI-WA-0006

Article IV. Performance Reports states in part:

- A. The Grantee shall submit to the Grant Officer a performance report every six months after the effective date of the Grant Agreement. Performance reports shall consist of (1) a narrative of work accomplished during the reporting period and (2) a completed Federal Financial Report – SF425.

Performance reports shall conform with 24 CFR 85.40 and 85.41 or 24CFR Sections 84.50 through 84.53, as applicable.

HUD may require additional information or increased frequency of reporting as described in Article VII (C). Additional information required or increased frequency of reporting as may be described in Article VII(C).

- B. The performance reports must contain the information required under 24CFR Part 85.40 or 24 CFR Part 84.51, as applicable including a comparison of actual accomplishment to the objectives indicated in the approved application, the reasons for slippage if established objectives were not met, and additional pertinent information including explanation of significant cost overruns.
- C. No grant drawdowns will be approved for projects with overdue performance reports.

Article V. Project Close-out

- A. The grantee shall submit to the Grant Officer a written request to close-out the grant 30 days after the grantee has drawn down all funds and completed the activities described in the application, as may be amended. The final report shall consist of (1) a narrative of all work accomplished during the project period and (2) a completed Federal Financial Report – SF-425 covering the entire project period.

HUD will then send the Close-out Agreement and Close-out Certification to the Grantee. At HUD's option, the Grantee may delay initiation of project close-out until the resolution of any HUD monitoring findings. If HUD exercises this option the Grantee must promptly resolve the findings.

Schedule of Federal Audit Findings and Questioned Costs

**City of Gig Harbor
Pierce County
January 1, 2013 through December 31, 2013**

2. The City does not have adequate internal controls to ensure compliance with reporting requirements.

CFDA Number and Title:	15.608 Fish and Wildlife Management Assistance
Federal Grantor Name:	U.S. Department of the Interior Fish and Wildlife Service
Federal Award/Contract Number:	F10AP00023
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

In 2013 the City spent \$662,611 in Fish and Wildlife Management Assistance grant funds to perform restoration activities at the Donkey Creek restoration site.

During our audit, we identified a material weakness in internal controls over reporting, causing noncompliance with grant reporting requirements.

The Fish and Wildlife Management Assistance grant requires the completion of quarterly interim progress reports and annual interim financial reports (SF-425). The City did not prepare or submit the interim reports for Quarter 3 and 4, 2013. In addition, the City did not prepare or submit the Annual 2013 Interim Financial Report.

These reports are an important factor in funding and other program related decisions made by the granting agency.

Cause of Condition

The financial reports are completed by the finance department while the performance reports/narratives are completed by the engineering Department. We determined a lack of communication between the departments, coupled with changes in the individuals responsible for reporting, caused confusion as to who is responsible for each report. Additionally, the City was unaware of the importance of submitting timely interim (quarterly) reports.

Effect of Condition and Questioned Costs

The City did not provide necessary reporting information to its grantor. Without this information, the federal agency does not have the information it may need to make future funding and other program-related decisions.

Recommendation

We recommend the City establish internal controls to ensure all required reports are prepared and submitted to the grantor in a timely manner.

City's Response

The City has reviewed the internal controls and communications between the finance department and the engineering department and is committed to updated controls to ensure this condition does not occur in the future. Due to the timing of the project milestones and reimbursement requests, the City incorporated the missing quarterly update information into the final reporting and did not submit separate interim reports. The City is now aware of the importance of interim reporting and has implemented controls to ensure future interim reports will be submitted in a timely fashion. It is the City's opinion that communication between the departments was adequate; there was simply a misunderstanding of the necessity of submitting interim reports with minimal or no new information.

Auditor's Remarks

We thank the City for its cooperation and assistance throughout the audit, and the steps it is taking to address this issue. We will review the status of the City's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

- (a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of

contracts or grant agreements that has a material effect on the audit; and
(4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Title 24 Code of Federal Regulations, Section 85.20 - Standards for financial management systems, states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

CFDA No. 15.608

Grant Agreement No. F10AP00023

Reporting Requirements states in part:

The recipient will submit Quarterly Interim Progress Report of activities which occurred and provide a description of the project accomplishments due March 31, June 30, September 30, and December 31. The recipient will submit a Final Progress Report due within 90 calendar days after the agreement completion date as defined in the agreement or in the most current modification. The

final progress report shall include: 1) name of the Recipient, project title, agreement number 2) date of report and period of time covered by the report 3) statement explaining any problems or delays in meeting the agreement objectives 4) include efforts undertaken for problem resolution.

The Recipient will submit Annual Interim Financial Report of Federal expenditures and unobligated balances on a Federal Financial Report for (SF425) due December 31. The Recipient will submit a Final Financial Report due within 90 calendar days after the agreement completion date as defined in the agreement or in the most current modification. The final SF425 shall cover all financial transactions that occurred during the life of the award. The Recipient shall account for any real and personal property acquired with Service Funds during the implementation of this project. Disposition of acquired real property will be determined at the end of the agreement.

Schedule of Federal Audit Findings and Questioned Costs

**City of Gig Harbor
Pierce County
January 1, 2013 through December 31, 2013**

3. The City did not have adequate internal controls to ensure compliance with federal procurement requirements.

CFDA Number and Title:	15.608, Fish and Wildlife Management Assistance
Federal Grantor Name:	U.S. Department of the Interior, Fish and Wildlife Service
Federal Award/Contract Number:	13320-A-G004
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The City received \$662,611 in federal Fish and Wildlife Management Assistance funds for the Donkey Creek Restoration Project in 2013. The City spent \$275,023 of the funds in 2013 on an engineering contract to provide design and project management services on the project. The total engineering contract amount was \$1,065,029.

The City advertised a request for proposal (RFP) for engineering services in compliance with procurement requirements for professional services. However, this engineering contract was terminated by the City as the contractor was unable to fulfill project requirements. Subsequently, the scope of the project was revised and a new RFP was issued. This engineering contract was also terminated.

For the third contracting process, the City utilized an alternative method to award the engineering contract that was not in compliance with federal procurement requirements.

Cause of Condition

To award the third engineering contract, the City utilized a Consulting Service Roster/On Call Professional Roster maintained by the Municipal Research and Services Center. The City contacted five engineers from the roster instead of publicizing the project for any

interested parties to respond. This does not meet federal procurement requirements. The City also failed to contact the granting agency to get direction as to possible alternative procurement processes.

Effect of Condition and Questioned Costs

Since the City did not follow applicable federal procurement requirements, it cannot ensure it obtained the best services at the most competitive price. However, the purchase was allowable under the federal program, and as a result, we are not questioning these costs.

Recommendation

We recommend the City establish and follow internal controls to ensure compliance with federal procurement requirements. The City should ensure staff responsible for grant compliance are adequately trained and are knowledgeable of federal procurement requirements. Further, we recommend the City consider contacting its granting agency when it has questions regarding compliance with grant requirements.

City's Response

The City is an infrequent recipient of federal grants; however, federal grants that have been received in the past were primarily through the Federal Highways programs. Consequently, staff has completed training and is aware of the requirements associated with the Federal Highways grants. Because the City had not previously administered a grant from the US Fish and Wildlife Service (US Department of the Interior), staff was unaware that there were different procurement requirements for federal grants from different federal agencies.

During the course of the project, the City had procured two previous consultant services contracts via a compliant process. The third procurement effort occurred during a critical juncture in the project and staff was under time constraints to keep the project moving forward. Due to the time constraints, the MRSC Consultant Roster process was used as it shortens the time for consultant selection. Staff's understanding at the time was that the MRSC Consultant Roster process satisfied federal and state contracting requirements. This was an unintentional error made in an effort to keep the project on schedule and meet the grant deadlines.

As part of the procurement process for the third consultant services contract, a total of five consultants were verbally contacted and invited for a formal and competitive interview before a City interview panel to discuss their qualifications unique to this particular and complex project. Of the five consultants contacted, two firms were responsive and subsequently interviewed by the City's selection panel. At the conclusion of the interview, the panel deliberated and selected the most qualified firm for this work. The City then negotiated a mutually agreeable cost for engineering services and entered into a third consultant services contract with the selected firm.

Staff is in the process of updating the City's procurement policy to clarify processes and requirements. Staff will be trained on the policy once it is completed. In addition, the City has implemented controls to request information directly from the specific federal agency if the grant is not being administered through the Department of Transportation.

Auditor's Remarks

We thank the City for its cooperation and assistance throughout the audit, and the steps it is taking to address this issue. We will review the status of the City's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, states in part:

Section 300

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

- .07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Title 44, Code of Federal Regulations, Section 13.36 – Procurements, states in part:

(b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements confirm to applicable Federal law and the standards identified in this section . . .

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(d) Methods of procurement to be followed.

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

(i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;

(ii) Proposals will be solicited from an adequate number of qualified sources;

(iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

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 Gig Harbor
Pierce County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Gig Harbor
Gig Harbor, 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 Gig Harbor, Pierce County, Washington, as of and for the year ended December 31, 2013, 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 22, 2014. As discussed in Note 14 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

The City has not presented all of the management's discussion and analysis information and has omitted the Budgetary Comparison Schedules for all special revenue funds, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

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 22, 2014.

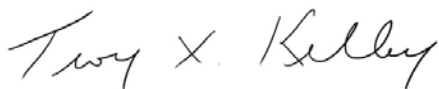
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Gig Harbor
Pierce County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Gig Harbor
Gig Harbor, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Gig Harbor, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 3. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

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

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 OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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

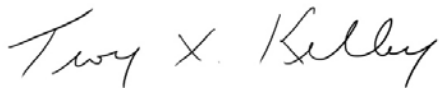
combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2 to be material weaknesses.

City's Response to Findings

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. 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.



TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Financial Statements

City of Gig Harbor Pierce County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Gig Harbor
Gig Harbor, 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 Gig Harbor, Pierce County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 27.

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 Gig Harbor, as of December 31, 2013, 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.

Matters of Emphasis

As discussed in Note 14 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 28 through 36 and information on postemployment benefits other than pensions on page 75 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. Although our opinion on the basic financial statements is not affected, management has not presented all of the required General Fund budget variance discussions in the management discussion and analysis, which is a material departure from prescribed guidelines. 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.

Management has omitted the Budgetary Comparison Schedules for all special revenues funds that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

The Parity Bond Debt Service Coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014 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.



TROY KELLEY
STATE AUDITOR

September 22, 2014

Financial Section

**City of Gig Harbor
Pierce County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental
Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2013

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and
Actual – General Fund – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2013

Statement of Cash Flows – Proprietary Funds – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Medical Benefits Information – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

Parity Bond Debt Service Coverage – 2013

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

This discussion and analysis provides an overview of the City of Gig Harbor's annual financial report for the fiscal year ended December 31, 2013. The city's financial performance is discussed and analyzed within the context of the accompanying financial statements.

Financial Highlights

- The city's total net position including all funds is \$98.6 million. This is a \$10.3 million or 11.7 percent increase over the prior year and compares with \$7.2, \$6.8 and \$7.6 million increases in 2012, 2011 and 2010 respectively.
- Net unrestricted position decreased from \$15.9 million in 2012 to \$13.8 million in 2013.
- Net investment in capital assets increased from \$68.1 million to \$78.6 million.
- Net capital assets increased from \$103.3 million to \$110.3 million.
- Total tax revenue increased nearly \$300,000 in 2013. Taxes collected include property, retail sales, and business and excise taxes.
- Cash and investments of \$20.2 million are up \$2.3 million over 2012. This is a 12.3 percent increase over the prior year. Governmental activities account for \$1.7 million of this increase while business-type activities account for the remainder.
- City-wide short-term liabilities (due in 2014, excluding short-term portion of long-term debt) are \$1.6 million. This leaves cash and investments of \$18.6 million available for spending at the city's discretion. Part of the City's cash and investments, \$1.6 million, is restricted for debt service.
- The city has total liabilities of \$34.2 million of which \$32.6 million are non-current liabilities.
- At year-end the general fund ending fund balance is \$5.6 million. This is a \$200,000 or 3.7 percent increase over the 2012 ending balance.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City of Gig Harbor's basic financial statements. The city's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements.

This report also includes required supplementary information intended to furnish additional detail to support the basic financial statements themselves; and supplementary information that provides parity bond debt service coverage information.

Government-wide financial statements

The government-wide financial statements are comprised of the Statement of Net Position and the Statement of Activities. These two statements are designed to provide readers with a broad overview of the city's finances.

The ***statement of net position*** presents information on all of the city's assets and liabilities, including capital assets and long-term liabilities, with the difference between the two reported as

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city as a whole is improving or deteriorating.

The **statement of activities** presents information showing how the city's net position has changed during the most recent fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support.

Both government-wide financial statements distinguish functions of the city that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the city include general government, police, community development, planning, judicial, street maintenance and community services. The business-type activities of the city include a water/sewer utility and a storm drainage utility.

Fund Financial Statements

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as a fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. All of the funds of the city can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements are accounted for using the modified accrual basis of accounting, which focuses on near-term inflow and outflow of liquid resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The city maintains 22 individual governmental funds. Information is presented separately, as major funds, in the governmental funds' balance sheet and statement of revenues, expenditures and changes in fund balances for the General (*Street Operating, Public Art Capital Projects, Civic Center Debt Reserve, Strategic Reserve, Equipment Reserve, Donations and Lighthouse Maintenance funds are consolidated into the general fund for reporting purposes*), Street Capital, Park Development and Hospital Benefit Zone (HBZ) Revenue funds, all of which are

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation which is referred to in the statements as "other governmental."

The city adopts an annually appropriated budget for all governmental and proprietary funds. Budgetary comparison statements for the general fund are included in the basic financial statements.

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The city uses enterprise funds to account for water, sewer and storm drainage operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for all of the enterprise funds, which are considered to be major funds of the city.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

At year-end, the city's net position (assets minus liabilities) was \$98.6 million. Governmental activities make up \$62.9 million of this balance while the city's business-type activities (water/sewer and storm) own the remaining balance of \$35.7 million.

The city reports net position in three categories: "Net investment in capital assets," "Restricted," and "Unrestricted."

The largest portion of the city's net position (\$78.6 million) is accounted for in the net investment in capital assets category. This amount does not include any related outstanding debt that was used to acquire or build those assets. The city's capital assets are used to provide a variety of services to its citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources (mostly operating revenues), since the capital assets themselves cannot be used to liquidate these liabilities.

The next category is restricted net position. These represent assets that are restricted as to their use by an external source. One example of this would be the proceeds of a bond issue which are restricted to build a project for which the bonds were sold, or monies placed into the bond reserve fund. At December 31, 2013 the city held \$6.2 million in restricted net position. Most of this is assets that are in the Impact Fee Trust and Hospital Benefit Zone special revenue funds; and in utility (business-type activities) debt service funds which are restricted by revenue bond covenants. The final category is unrestricted net position and may be used to meet the city's ongoing obligations to city programs, services and creditors. The city's unrestricted net position decreased \$2.1 million to \$13.8 million at the end of 2013.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 11,977,323	\$10,348,666	\$10,577,376	\$10,195,842	\$22,554,699	\$20,544,508
Capital assets, net	63,070,611	59,611,509	47,192,286	43,720,787	110,262,897	103,332,296
Total assets	75,047,934	69,960,175	57,769,662	53,916,629	132,817,596	123,876,804
Liabilities						
Other liabilities	1,078,057	375,880	555,628	528,744	1,633,685	904,624
Long-term liabilities	11,044,961	11,856,080	21,530,031	22,843,475	32,574,992	34,699,555
Total liabilities	12,123,018	12,231,960	22,085,659	23,372,219	34,208,677	35,604,179
Net position						
Net investment in capital assets	52,677,611	46,954,458	25,961,109	21,157,198	78,638,720	68,111,656
Restricted	4,779,773	2,713,184	1,382,939	1,577,894	6,162,712	4,291,078
Unrestricted	5,467,532	8,060,573	8,339,955	7,809,318	13,807,487	15,869,891
Total net position	\$ 62,924,916	\$57,728,215	\$35,684,003	\$30,544,410	\$98,608,919	\$88,272,625

Governmental operating revenues (general revenues plus program revenues excluding capital grants and contributions) increased only \$200,000 from \$14.2 million in 2012 to \$14.4 million in 2013.

Capital grants and contributions were down from \$3.3 million in 2012 to \$2.6 million in 2013. This is due to a slight drop-off in capital grant funding and impact fee revenue as projects were completed.

General government expenses decreased \$1.1 million from the prior year; however last year included a significant amount of street rehabilitation work. If this work were removed, 2013 governmental expenses actually show a slight increase of \$131,000 over 2012.

Total net position for the city's business-type activities (Water/Sewer and Storm) ended the year at \$35.7 million. This is an increase of \$5.2 million over the prior year. The increase in net position for business-type activities was \$2.3 million in 2012 and \$3.8 million in 2011.

The largest portion of the business-type activities net assets (\$26.0 million) is accounted for in the investment in capital assets category.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

Restricted net position in the business-type activities is \$1.4 million. The restriction is due to revenue bond covenants for debt service on outstanding revenue bonds.

Unrestricted net position in the business-type activities is \$8.3 million. This is a \$531,000 increase over the prior year.

City of Gig Harbor business-type operating revenues were \$5.3 million. This is an increase over 2012 operating revenues of \$2.4 million. The increase is due to general facilities charges (also known as connection fees). These increased from \$1.7 million in 2012 to \$3.6 million in 2013. The city also received a \$1 million grant in 2013. Operating expenses increased by \$874,000 in 2013. The bulk of this increase is attributed to increased operations and maintenance costs. The system underwent some significant costs such as Grandview storage tank repainting and a pump failure, which were both included in maintenance costs for 2013.

Water, sewer and storm sales/charges were flat in 2013 despite growth in customer base. Utility rates were not increased in 2013. The city is undergoing a rate study in 2014 in order to determine if rates are sufficient.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

Table 2
Changes in net position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Program revenues						
Charges for services	\$ 2,205,817	\$ 2,225,468	\$ 5,705,297	\$ 5,669,923	\$ 7,911,114	\$ 7,895,391
Operating grants/contributions	101,773	152,048	290,215	252,389	391,988	404,437
Capital grants/contributions	2,599,481	3,289,847	5,655,168	1,942,527	8,254,649	5,232,374
General revenues						
Sales and use tax	7,564,093	7,472,325	-	-	7,564,093	7,472,325
Property tax	2,557,433	2,499,260	-	-	2,557,433	2,499,260
Other taxes	2,018,086	1,879,273	205,952	200,916	2,224,038	2,080,189
Total revenues	\$17,046,683	\$17,518,221	\$11,856,632	\$ 8,065,755	\$28,903,315	\$25,583,976
Program expenses						
General government	2,447,055	2,371,893	-	-	2,447,055	2,371,893
Judicial	354,713	359,123	-	-	354,713	359,123
Public safety	2,917,248	2,871,622	-	-	2,917,248	2,871,622
Physical Environment/Utilities	136,096	5,652	6,717,039	5,700,235	6,853,135	5,705,887
Transportation	2,824,120	4,221,117	-	-	2,824,120	4,221,117
Economic Environment	1,519,644	1,492,662	-	-	1,519,644	1,492,662
Mental & Physical Health	1,422	1,797	-	-	1,422	1,797
Culture & Recreation	998,461	935,919	-	-	998,461	935,919
Interest on long-term debt	521,837	492,014	-	-	521,837	492,014
Total Expenses	11,720,596	12,751,799	6,717,039	5,700,235	18,437,635	18,452,034
Increase in net position	\$ 5,326,087	\$ 4,766,422	\$ 5,139,593	\$ 2,365,520	\$10,465,680	\$ 7,131,942
Net position, January 1, 2013	57,728,215	52,961,793	30,544,410	28,178,890	88,272,625	81,140,683
Prior period adjustment	(129,386)	-	-	-	(129,386)	-
Net position, December 31, 2013	\$62,924,916	\$57,728,215	\$35,684,003	\$30,544,410	\$98,608,919	\$88,272,625

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At the end of 2013, the city's governmental funds had a combined ending fund balance of \$10.9 million. This is a \$1.0 million increase from a \$9.9 million ending fund balance reported in 2012.

The increase in ending fund balance is related to a significant decrease in transportation operation and maintenance expenditures. The city performed a significant street resurfacing project in 2012.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

The subsequent year, 2013, street maintenance activities returned to a more normal level there by reducing street maintenance costs to a more normal level.

Governmental Funds. The focus of the city's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the city's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the city's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the city's governmental funds reported total ending fund balances of \$10.9 million. More than one half (\$5.6 million) of the total ending governmental fund balances are reported in the General fund. Of the remaining major funds, the largest portion of ending fund balance (\$2.9 million) is reported in the HBZ Revenue fund. The balance in this fund is restricted for capital improvements within the Hospital Benefit Zone. Ending fund balance for Other Governmental funds (an aggregation of the city's non-major funds) is \$2.1 million. The bulk of this balance is restricted for capital projects, debt service and economic development.

General fund revenues increased \$658,000 or 6.1 percent in 2013. Taxes were the main contributor to this increase. Property taxes contributed about \$550,000 to the increase. This jump was not due to a tax increase; rather it happened due to a refund tax levy and higher collection rates experienced in 2013. Sales taxes in 2013 were up a modest \$92,000, while utility taxes were flat; and other taxes were up \$132,000. Permits and intergovernmental revenues (grants) were both down slightly from 2012 levels. Permit revenues are down about \$18,000 from 2012, while intergovernmental revenues are down by about \$94,000.

General Fund expenditures were \$9.3 million in 2013. This is an \$800,000 decrease from 2012. The decrease is due to more normal street maintenance activity in 2013. If we remove the \$1.2 million for street resurfacing in 2012, the 2013 expenditures for General Fund are up \$400,000 over 2012.

Capital outlays in the Street Capital fund remain consistent with 2012 and capital outlays in Park Development declined by about \$1.7 million in 2013.

The city's remaining major funds; Street Capital, Park Development, and HBZ Revenue are all funded through general fund contributions and special project-related revenue sources such as state distributions, impact fees, general obligation bonds and state and federal grants.

Proprietary Funds. The city's proprietary funds provide the same type of information found in the government-wide financial statements business-type activities column, but in more detail. The Water-Sewer and Storm Utility's net position was \$35.7 million at year-end. Of this amount, \$8.3 million is liquid and available to meet future obligations; with about \$1.4 million of this amount being restricted for revenue bond debt service.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

Water and sewer monthly (billed bi-monthly) revenues were \$1.3 and \$3.6 million. This is an increase of \$27,000 and \$68,000 respectively from 2012. General facilities charges (connection fees) for water and sewer were \$709,000 and \$2.9 million respectively. Storm sewer revenues for monthly service and system connections were \$746,000 and \$274,000 respectively. The monthly storm revenues are down slightly (\$2,000) from 2012.

Water & sewer operating expenses, excluding depreciation expense, are up \$761,000 (25.1%) over the preceding year; while Storm operating expenses are up \$41,000 (7.3%). The increase is due to increased staffing, rising maintenance costs and increasing utilities costs.

Capital Asset and Debt administration

Capital assets.

The City of Gig Harbor's net investment in capital assets for governmental and business-type activities as of December 31, 2013 totals \$110.3 million. This is an increase of \$7.0 million over 2012. The city's governmental activities own \$63.1 million of this total and the Water-Sewer-Storm system owns \$47.2 million of the total. Capital assets are land and related land improvements, buildings and park facilities, machinery and equipment, streets and utility infrastructure.

Major capital projects identified in the city's comprehensive plan are funded from several sources in addition to the general fund revenues; these are: transportation and park impact fees, a one-half of one percent real estate excise tax charged on the sale of real property, and grants. Long-term debt is also considered in order to fund capital asset acquisitions.

Additional information on the city's capital assets can be found in Notes to the Basic Financial Statements, note 6.

Long-term debt.

The city has the following types of debt outstanding at December 31, 2013; unlimited (voted) general obligation (UTGO), limited general obligation (LTGO), revenue bonds and public works trust fund loans (PWTF). A special property tax levy is pledged to service UTGO debt, general revenues (sales, property and utility taxes) are pledged to service LTGO debt, and specific revenue sources (utility rates) are pledged to repay revenue and PWTF debt. The PWTF debt is subordinate to the revenue bond debt.

At fiscal year-end the city had \$31,726,082 in total bonded debt outstanding, including a premium of \$108,700 on bonds payable. This total does not include \$655,621 and \$193,287 owed for compensated absences and other post-employment benefits, respectively.

Additional information on the city's long-term debt can be found in Notes to the Basic Financial Statements, note 9.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2013

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
LTGO bonds	\$ 8,035,000	\$ 8,715,000	\$ -	\$ -	\$ 8,035,000	\$ 8,715,000
UTGO bonds	2,358,000	2,528,000	-	-	2,358,000	2,528,000
Water/Sewer Revenue bonds	-	-	13,290,000	14,201,700	13,290,000	14,201,700
PWTF	-	-	7,941,176	8,470,588	7,941,176	8,470,588
Certificates of Participation	-	18,328	-	-	-	18,328
Total	\$ 10,393,000	\$ 11,261,328	\$ 21,231,176	\$ 22,672,288	\$ 31,624,176	\$ 33,933,616

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the city'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 information should be addressed to the City of Gig Harbor Finance Department, 3510 Grandview Street, Gig Harbor, WA 98335.

City of Gig Harbor
Statement of Net Position
December 31, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,212,925	\$ 8,652,683	\$ 17,865,608
Investments	1,318,978	972,854	2,291,832
Receivables			
Taxes	1,393,803	-	1,393,803
Accounts and contracts	51,617	951,839	1,003,456
Capital assets not being depreciated			
Land	14,237,179	542,233	14,779,412
Construction in progress	12,307,077	2,709,074	15,016,151
Capital assets net of accumulated depreciation:			
Buildings	7,164,517	18,677,153	25,841,670
Improvements other than buildings	6,576,823	2,581,714	9,158,537
Machinery and equipment	382,863	283,973	666,836
Infrastructure	22,402,152	22,398,139	44,800,291
Total assets	75,047,934	57,769,662	132,817,596
Liabilities			
Accounts payable	925,083	337,354	1,262,437
Retainage payable	4,953	-	4,953
Bond interest payable	36,405	216,662	253,067
Contract payable	-	12	12
Deposits payable	41,193	1,600	42,793
Unearned revenues	70,423	-	70,423
Noncurrent liabilities:			
Due within one year	882,000	1,129,412	2,011,412
Due in more than one year	10,162,961	20,400,619	30,563,580
Total liabilities	12,123,018	22,085,659	34,208,677
Net position			
Net investment in capital assets	52,677,611	25,961,109	78,638,720
Restricted for:			
Capital acquisition	4,600,892	-	4,600,892
Debt service	178,881	1,382,939	1,561,820
Unrestricted	5,467,532	8,339,955	13,807,487
Total net position	\$ 62,924,916	\$ 35,684,003	\$ 98,608,919

The accompanying notes are an integral part of this statement.

**City of Gig Harbor
Statement of Activities
Year Ended December 31, 2013**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,447,055	\$ 381,634	\$ -	\$ -	\$ (2,065,421)	\$ -	\$ (2,065,421)
Judicial	354,713	178,294	-	-	(176,419)	-	(176,419)
Public safety	2,917,248	59,253	68,753	-	(2,789,242)	-	(2,789,242)
Physical environment/utilities	136,096	6,395	-	-	(129,701)	-	(129,701)
Transportation	2,824,120	415,232	-	2,092,837	(316,051)	-	(316,051)
Economic environment	1,519,644	1,163,717	8,100	-	(347,827)	-	(347,827)
Mental & physical health	1,422	-	-	-	(1,422)	-	(1,422)
Culture & recreation	998,461	178	24,920	506,644	(466,719)	-	(466,719)
Interest on long-term debt	521,837	1,114	-	-	(520,723)	-	(520,723)
Total governmental activities	11,720,596	2,205,817	101,773	2,599,481	(6,813,525)	-	(6,813,525)
Business-type activities:							
Water	1,623,710	1,351,425	-	1,668,576	-	1,396,291	1,396,291
Sewer	4,427,276	3,607,398	201,511	2,905,583	-	2,287,216	2,287,216
Storm water	666,053	746,474	88,704	1,081,009	-	1,250,134	1,250,134
Total business-type activities	6,717,039	5,705,297	290,215	5,655,168	-	4,933,641	4,933,641
Total government	\$ 18,437,635	\$ 7,911,114	\$ 391,988	\$ 8,254,649	\$ (6,813,525)	\$ 4,933,641	\$ (1,879,884)
General revenues:							
Taxes:							
		Property taxes			\$ 2,557,433	\$ -	\$ 2,557,433
		Retail sales taxes			7,564,093	-	7,564,093
		Business taxes			1,379,201	205,952	1,585,153
		Excise & other taxes			638,885	-	638,885
		Total general revenues			12,139,612	205,952	12,345,564
Change in net position					5,326,087	5,139,593	10,465,680
Net position - beginning					57,728,215	30,544,410	88,272,625
Prior period adjustment					(129,386)	-	(129,386)
Net position - ending					\$ 62,924,916	\$ 35,684,003	\$ 98,608,919

The accompanying notes are an integral part of this statement.

**City of Gig Harbor
Governmental Funds
Balance Sheet
December 31, 2013**

	General	Street Capital	Park Development	HBZ Revenue	Other Governmental	Governmental Fund Total
Assets						
Cash and cash equivalents	\$ 3,136,352	\$ 468,779	\$ 633,688	\$ 2,861,804	\$ 2,085,820	\$ 9,186,443
Investments	1,318,978	-	-	-	-	1,318,978
Accounts receivable						
Taxes	1,344,009	-	-	-	49,793	1,393,802
Accounts and contracts	50,168	-	-	-	1,050	51,218
Cash - restricted	-	25,341	1,141	-	-	26,482
Total assets	5,849,507	494,120	634,829	2,861,804	2,136,663	11,976,923
Liabilities and fund balance						
Liabilities:						
Accounts payable	190,475	224,075	486,975	-	54,501	956,026
Customer deposits	15,203	-	-	-	-	15,203
Unearned revenue	63,702	-	-	-	6,721	70,423
Total liabilities	269,380	224,075	486,975	-	61,222	1,041,652
Fund balances:						
Restricted for:						
Debt service	-	-	-	-	182,870	182,870
Capital projects	-	-	-	2,861,804	1,689,048	4,550,852
Economic development	-	-	-	-	173,961	173,961
Park Acquisition	-	-	-	-	-	-
Public safety	-	-	-	-	29,562	29,562
Streets	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Comitted to:	-	-	-	-	-	-
Assigned to:						
Debt service	1,234,400	-	-	-	-	1,234,400
Parks	1,215	-	147,854	-	-	149,069
Streets	284,761	270,045	-	-	-	554,806
Other purposes	1,103,231	-	-	-	-	1,103,231
Unassigned	2,956,520	-	-	-	-	2,956,520
Total fund balances	5,580,127	270,045	147,854	2,861,804	2,075,441	10,935,271
Total liabilities and fund balance	\$ 5,849,507	\$ 494,120	\$ 634,829	\$ 2,861,804	\$ 2,136,663	\$ 11,976,923

The accompanying notes are an integral part of this statement.

**Reconciliation of the Balance Sheet
To the Statement of Net Position
Governmental Funds
December 31, 2013**

Total fund balance of governmental funds: \$ 10,935,271

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental funds

These assets consist of:

Land	\$ 14,237,179	
Buildings and structures	10,014,811	
Infrastructure	23,810,309	
Improvements	13,410,244	
Machinery and equipment	2,859,489	
Construction in progress	12,307,077	

Less: accumulated depreciation	\$ (13,568,099)	63,071,010
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Long term bond interest payable is not reported in governmental funds (36,405)

Long-term liabilities, including bonds payable, compensated absences and
other post-employment benefits are not due and payable in the current period and,
therefore, are not reported in governmental funds. (11,044,961)

Net position of governmental activities	\$ 62,924,916
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The accompanying notes are an integral part of this statement.

City of Gig Harbor
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2013

	General	Street Capital	Park Development	Hospital Benefit Zone Revenue	Other Governmental	Total
Revenues						
Taxes	\$ 9,013,681	\$ -	\$ -	\$ 2,068,865	\$ 1,052,147	\$ 12,134,693
Licenses and permits	1,171,752	-	-	-	-	1,171,752
Intergovernmental revenues	350,538	1,432,846	275,644	-	-	2,059,028
Charges for services	525,156	-	-	-	753,736	1,278,892
Fines and forfeits	114,949	-	-	-	-	114,949
Miscellaneous	134,228	47,488	175	3,859	101,114	286,864
Total revenues	11,310,304	1,480,334	275,819	2,072,724	1,906,997	17,046,178
Expenditures						
Current:						
Judicial	354,713	-	-	-	-	354,713
General government	2,142,405	-	-	-	-	2,142,405
Security of persons and property	2,868,620	-	-	-	6,708	2,875,328
Physical environment	-	-	-	-	136,096	136,096
Transportation	1,764,887	-	-	-	-	1,764,887
Economic environment	1,291,475	-	-	-	228,169	1,519,644
Mental and physical health	1,422	-	-	-	-	1,422
Culture and recreation	747,741	-	-	-	-	747,741
Debt service:						
Principal	-	-	-	-	868,328	868,328
Interest and other debt service costs	-	-	-	-	447,440	447,440
Capital outlay	98,356	3,677,389	1,282,714	-	-	5,058,459
Total expenditures	9,269,619	3,677,389	1,282,714	-	1,686,741	15,916,463
Excess of revenues over (under) expenditures	2,040,685	(2,197,055)	(1,006,895)	2,072,724	220,256	1,129,715
Other financing sources (uses)						
Capital asset disposal	-	-	-	-	-	-
Special assessments	-	-	-	-	506	506
Transfers in	-	2,266,374	1,060,000	-	980,000	4,306,374
Transfers out	(1,770,000)	-	-	(1,766,374)	(770,000)	(4,306,374)
Total other financing sources and Uses	(1,770,000)	2,266,374	1,060,000	(1,766,374)	210,506	506
Net change in fund balance	270,685	69,319	53,105	306,350	430,762	1,130,221
Fund balance at beginning of year	5,438,828	200,726	94,749	2,555,454	1,644,679	9,934,436
Prior period adjustment	(129,386)	-	-	-	-	(129,386)
Fund balance at end of year	\$ 5,580,127	\$ 270,045	\$ 147,854	\$ 2,861,804	\$ 2,075,441	\$ 10,935,271

The accompanying notes are an integral part of this statement.

City of Gig Harbor
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities

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

Net change in fund balance - total governmental funds	\$ 1,130,221
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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. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	4,871,456	
Less current year depreciation	<u>(1,604,197)</u>	3,267,259

Repayment of bond principal is an expenditure in the funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments	<u>868,328</u>	868,328
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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.

	<u>60,279</u>	60,279
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Change in net position of governmental activities	\$ 5,326,087
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The accompanying notes are an integral part of this statement.

City of Gig Harbor
Statement of Revenues, Expenditures and
Changes in Fund Balances – Budget and Actual
General Fund
For the Year Ended December 31, 2013

	Budget		Actual Amounts	Variance
	Original	Final		
Revenues				
Taxes	\$ 8,824,557	\$ 8,824,557	\$ 9,013,681	\$ 189,124
Licenses and permits	1,017,245	1,017,245	1,171,752	154,507
Intergovernmental revenues	295,189	295,189	350,538	55,349
Charges for services	346,232	346,232	525,156	178,924
Fines and forfeits	135,160	135,160	114,949	(20,211)
Miscellaneous	68,419	68,419	134,228	65,809
Total revenues	10,686,802	10,686,802	11,310,304	623,502
Expenditures				
Current:				
Judicial	376,000	376,000	354,713	21,287
General government	2,447,434	2,447,434	2,142,405	305,029
Security of persons and property	3,080,550	3,080,550	2,868,620	211,930
Physical environment	6,100	6,100	-	6,100
Transportation	2,063,218	2,063,218	1,764,887	298,331
Economic environment	1,318,925	1,318,925	1,291,475	27,450
Mental and physical health	750	750	1,422	(672)
Culture and recreation	753,075	753,075	747,741	5,334
Capital outlay	137,000	137,000	98,356	38,644
Total expenditures	10,183,052	10,183,052	9,269,619	913,433
Excess of revenues over (under) expenditures	503,750	503,750	2,040,685	1,536,935
Other financing sources (uses)				
Capital asset disposal	-	-	-	-
Transfers in	1,597,080	1,597,080	-	1,597,080
Transfers out	(3,780,080)	(3,780,080)	(1,770,000)	2,010,080
Total other financing sources (uses)	(2,183,000)	(2,183,000)	(1,770,000)	413,000
Net change in fund balance	(1,679,250)	(1,679,250)	270,685	1,949,935
Fund balance - beginning	4,608,781	4,608,781	5,438,828	830,047
Prior period adjustment	-	-	(129,386)	(129,386)
Fund balance - ending	\$ 2,929,531	\$ 2,929,531	\$ 5,580,127	\$ 2,650,596

The accompanying notes are an integral part of this statement.

City of Gig Harbor
Statement of Net Position
Proprietary Funds
December 31, 2013

	Water-Sewer Utility	Storm Sewer Operating	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 7,689,258	\$ 592,357	\$ 8,281,615
Accounts and contracts	757,263	188,753	946,016
Total current assets	8,446,521	781,110	9,227,631
Noncurrent assets:			
Restricted cash and investments:			
Cash and cash equivalents	373,068	-	373,068
Investments	976,677	-	976,677
Land	542,233	-	542,233
Buildings	26,107,320	-	26,107,320
Improvements other than buildings	26,865,999	3,668,190	30,534,189
Machinery and equipment	1,367,381	414,186	1,781,567
Construction in progress	2,655,595	53,479	2,709,074
Less accumulated depreciation	(13,206,740)	(1,275,357)	(14,482,097)
Capital assets, net of accumulated depreciation	44,331,788	2,860,498	47,192,286
Total noncurrent assets	45,681,533	2,860,498	48,542,031
Total assets	54,128,054	3,641,608	57,769,662
Liabilities			
Current liabilities:			
Accounts payable	196,783	140,584	337,367
Matured revenue bonds payable	1,129,412	-	1,129,412
Revenue bond interest payable	216,662	-	216,662
Other payables	1,600	-	1,600
Total current liabilities	1,544,457	140,584	1,685,041
Noncurrent Liabilities:			
Compensated absences payable	150,194	46,754	196,948
Revenue bonds payable (net of unamortized premium)	20,203,671	-	20,203,671
Total noncurrent liabilities	20,353,865	46,754	20,400,619
Total liabilities	21,898,322	187,338	22,085,660
Net position			
Net investment in capital assets	23,100,611	2,860,498	25,961,109
Restricted for debt service	1,382,939	-	1,382,939
Restricted for capital acquisition	-	-	-
Unrestricted	7,746,182	593,772	8,339,954
Total net position	\$ 32,229,732	\$ 3,454,270	\$ 35,684,002

The accompanying notes are an integral part of this statement.

CITY OF GIG HARBOR
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Water-Sewer Utility	Storm Sewer Operating	Total
Operating revenues:			
Water sales	\$ 1,344,572	\$ -	\$ 1,344,572
Sewer charges	3,632,397	-	3,632,397
Storm sewer charges	-	745,858	745,858
Other fees and charges	3,595,478	273,633	3,869,111
Miscellaneous	202,687	13,597	216,284
Total operating revenues	8,775,134	1,033,088	9,808,222
Operating expenses:			
Operations and maintenance	2,577,546	281,675	2,859,221
Administration	1,030,920	300,394	1,331,314
Depreciation	1,356,531	66,940	1,423,471
Utility taxes	185,393	17,044	202,437
Total operating expenses	5,150,390	666,053	5,816,443
Operating income (loss)	3,624,744	367,035	3,991,779
Nonoperating revenues (expenses):			
Intergovernmental revenue	1,160,777	759,983	1,920,760
Investment earnings	(9,047)	600	(8,447)
Interest expense	(735,747)	-	(735,747)
Other debt service expense	(164,849)	-	(164,849)
Miscellaneous non-operating revenues	-	136,096	136,096
Gain on sale of capital assets	-	-	-
Total nonoperating revenues (expenses)	251,134	896,679	1,147,813
Changes in net position	3,875,878	1,263,714	5,139,592
Total net position-beginning	28,353,854	2,190,556	30,544,410
Total net position-ending	\$ 32,229,732	\$ 3,454,270	\$ 35,684,002

The accompanying notes are an integral part of this statement.

CITY OF GIG HARBOR
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Water/Sewer Utility	Storm Sewer	Total Enterprise Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 5,212,805	\$ 783,828	\$ 5,996,633
Payments to suppliers	(2,357,907)	(229,269)	(2,587,176)
Payments to employees	(1,439,853)	(328,599)	(1,768,452)
Other receipts (payments)	3,620,739	273,633	3,894,372
Net cash provided (used) by operating activities	5,035,784	499,593	5,535,377
Cash Flows from Non-capital Financing Activities			
Subsidy from federal grant	-	88,704	88,704
Net cash provided (used) by non-capital financing activities	-	88,704	88,704
Cash Flows from Capital and Related Financing Activities			
Capital grants	959,266	671,279	1,630,545
Capital contributions	-	136,096	136,096
Acquisition and construction of capital assets	(3,644,906)	(1,262,440)	(4,907,346)
Principle paid on revenue bond maturities	(1,339,205)	-	(1,339,205)
Interest paid on revenue bonds	(538,847)	-	(538,847)
Net cash provided (used) by capital and related financing activities	(4,563,692)	(455,065)	(5,018,757)
Cash Flows from Investing Activities			
Purchase of investments	(1,002,568)	-	(1,002,568)
Sale of investments	1,000,490	-	1,000,490
Interest received on investments	21,664	600	22,264
Net cash provided by investing activities	19,586	600	20,186
Net increase (decrease) in cash and cash equivalents	491,678	133,832	625,510
Cash and cash equivalents, beginning	7,570,650	458,525	8,029,175
Cash and cash equivalents, ending	\$ 8,062,328	\$ 592,357	\$ 8,654,685
Reconciliation of Operating Income to Net Cash			
Provided (Used) by Operating Activities:			
Operating income (loss)	3,632,190	367,035	3,999,225
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,356,531	66,940	1,423,471
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	62	41,245	41,307
Increase (decrease) in accounts receivable	47,001	24,373	71,374
Total adjustments	47,063	65,618	112,681
Net cash provided by operating activities	\$ 5,035,784	\$ 499,593	\$ 5,535,377

The accompanying notes are an integral part of this statement.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Note 1 – Summary of significant accounting policies

The City of Gig Harbor was incorporated in 1946 and is a general purpose government providing police protection, street maintenance and improvement, parks, planning and land use and general administrative services. In addition, the city owns and operates water, sewer and storm drainage systems. Gig Harbor is organized as a noncharter code city under the laws of the State of Washington and is governed by a Mayor and a City Council made up of seven members elected to four year staggered terms.

The financial statements of the city have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. 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

The city's financial statements present the City of Gig Harbor only. There are no component units included in these financial statements.

B. Government-wide and fund financial statements

The financial statements include both government-wide and fund financial statements. The government-wide statements consist of a *Statement of Net Position* and a *Statement of Activities* and report information on all of the non-fiduciary activities of the city, excluding the effect of interfund activity. Activities are reported in two categories: governmental activities (financed through taxes and intergovernmental revenues); and business-type activities (financed through user fees charged to external users).

The *Statement of Net Position* presents the financial position for the city's governmental (governmental activities) and enterprise funds (business-type activities) at year-end.

The *Statement of Activities* reports the gross and net cost of each of the city's functions (general government, public safety, transportation, etc.) and business-type activities (water/sewer and storm drainage). Direct expenses are those that are clearly identifiable with a specific function or segment. The city does not allocate indirect costs to the specific functions. The statement of activities reduces direct expenses by related program revenues, which are defined as: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function including charges for services, operating and capital grants and contributions. All revenues that are not program revenues are general revenues and reported by type after total net expense of the city's functions. This includes taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

The fund financial statements present the city's major governmental and proprietary funds as separate columns in the fund financial statements. Non-major governmental funds are combined in a single column.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The accounting objectives of the economic measurement focus are the determination of operating income, changes in assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Under the accrual basis of accounting, 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 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. 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.

D. Financial Statement Presentation

Major governmental funds:

General Fund

The general fund is the city's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Street Operating, Public Art Capital Projects, Civic Center Debt Reserve, Strategic Reserve, Equipment Reserve, Donations and Lighthouse Maintenance funds are consolidated into the general fund in this financial report. For operational purposes these funds are accounted for separately throughout the year.

- The street fund accounts for all maintenance activities concerning city streets, including sidewalks, street lighting, traffic signals, landscaping, street cleaning, annual chip-seal program and snow and ice removal.
- The Civic Center Debt Reserve fund was established to build a debt reserve for the Civic Center bonds that were issued in 2001. Since the 2001 bonds were refunded in 2010, the resources accumulated in this fund may be used to retire the refunding debt in 2021.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

- The Public Art Capital Projects Fund is used to accumulate unspent appropriations of the Arts Commission Project Support Program. The funds accumulated in this fund are used for public art capital projects.
- The Strategic Reserve Fund is used to accumulate resources to take advantage of strategic opportunities as they arise and to insulate the city from revenue fluctuations, economic downturns and other unforeseen events that may occur.
- The Equipment Reserve Fund was established in order to provide the city a method to save for significant purchases.
- The Lighthouse Maintenance Fund was created to provide funding for maintenance of the lighthouse located on the sand spit at the entrance to the harbor.

Street Capital Fund

The street capital fund accounts for all construction activities concerning roadways, sidewalks, street lighting and traffic signals.

Park Development Fund

This fund accumulates resources through annual contributions from the general fund and interest earnings to develop park property.

Hospital Benefit Zone Revenue Fund

This fund was established to receive and account for sales tax matching distributions from the state. The funds are reserved for qualified projects within the Hospital Benefit Zone.

Major proprietary funds:

Water/Sewer Fund

This fund accounts for operations and maintenance of the water system and sewer collection and treatment services. Capital assets are also constructed or purchased within this fund.

Storm Sewer Operating Fund

The storm sewer operating fund accounts for all operations, maintenance and construction activities related to the city's storm sewer system. Capital assets are also constructed or purchased within this fund.

Non-major governmental funds:

State Drug Investigation Fund

Proceeds from the sale of property seized during drug investigations and forfeited pursuant to state law are accumulated in this fund. These moneys are used to pay for overtime, equipment and supplies related to drug investigations and related activities.

Federal Drug Investigation Fund

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Proceeds from the sale of property seized during drug investigations and forfeited pursuant to federal law are accumulated in this fund. These moneys are used to pay for overtime, equipment and supplies related to drug investigations and related activities.

Hotel-Motel Fund

The lodging tax is imposed by the city upon the sale or the furnishing of lodging. Revenues generated by this tax may be used solely for paying for tourist promotion and acquisition and/or maintenance of tourism-related facilities.

Capital Development Fund

This fund accounts for the proceeds of the first one-quarter percent of the locally imposed real estate excise tax. State law restricts the use of these funds to financing capital projects specified in a capital facilities plan element of a comprehensive plan.

Capital Improvement Fund

This fund accounts for the proceeds of the second quarter percent of the locally imposed real estate excise tax. Permitted uses are defined as public works projects for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks.

Impact Fee Trust Fund

This fund accounts for the park and transportation fees that are paid to the city. As eligible projects are appropriated by City Council, the impact fees allocated for that project are transferred to the construction fund.

LTGO Bond Redemption Fund

This fund is used to retire non-voted general obligation debt. Resources are provided through transfers from the general fund.

LID No. 99-1 Bond Redemption Fund

This fund was created to account for the payment of the principal and interest on the bond issued to finance construction of Borgen Boulevard.

LID No. 99-1 Guaranty Fund

The LID No. 99-1 guaranty fund was established upon issuance of the LID bonds to ensure payment in the event of property owner default.

2005 Bond Redemption Fund

This fund was created to account for the payment of the principal and interest on the voted bond issued to purchase the Eddon Boatyard.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated from the government-wide financial statements.

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 program revenues. General revenues include all taxes.

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 Water/Sewer and Storm funds are user charges and connection fees. 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 city's policy to use restricted resources first, and then unrestricted resources as needed.

Budgetary information

1. Scope of Budget

Annual appropriated budgets are adopted for all funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

Other budgets are adopted at the level of the fund, except in the General Fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at year-end, except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

2. Amending the Budget

The Mayor, City Administrator or Finance Director are authorized to transfer budget amounts between categories within funds or general fund departments. Revisions that alter the total expenditures of a fund or general fund department, 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 appropriation for a particular fund or department, it may do so by ordinance approved by one more than the majority of the City Council after holding a public hearing.

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.

3. Excess of expenditures over appropriations

There were no instances where expenditures exceeded appropriations during the 2013 fiscal year.

4. Deficit fund equity

There were no funds with deficit fund equity at year-end.

E. Assets, Liabilities and Equities

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, short-term investments with original or remaining maturities of three months or less when purchased, and cash and investments in the Local Government Investment Pool which is operated by the Washington State Treasurer's Office.

Investments are stated at fair value.

For purposes of the Statement of Cash Flows, the city considers all highly liquid investments with maturity of three months or less, when purchased, to be cash equivalents.

It is the city's policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding \$17,865,608 in cash on hand, deposits and short-term investments of surplus cash.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Investments – see Note 4.

Receivables

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operations of the current period. An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property.

Receivables in governmental and enterprise funds are stated net of any allowance for uncollectible accounts.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the properties benefited. As of December 31, 2013, the city does not have any special assessments outstanding.

Restricted Assets

Restricted assets include those monies reserved for customers' deposits, bond reserve monies and impact fees.

At December 31, 2013, the restricted assets of the governmental and enterprise funds are composed of the following:

Enterprise funds:

Cash & cash equivalents - debt service	\$ 373,068
Investments - debt service	\$ 976,677

Governmental funds:

Cash & cash equivalents - construction	\$4,550,852
Cash & cash equivalents - debt service	\$ 182,870
Cash & cash equivalents – economic development	\$ 173,961
Cash & cash equivalents – public safety	\$ 29,562

Capital assets – see Note 6.

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and are reported in the applicable governmental or business - type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$10,000 (\$25,000 for infrastructure) and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest payments incurred by the city during 2013 were \$1,185,864. The City did not have any debt-financed capital projects under construction in 2013; therefore all 2013 interest costs were expensed.

Capitalization thresholds and useful lives of capital assets reported in the government-wide statements and proprietary funds are listed below. The straight-line method is used to depreciate all capital assets.

	Capitalization Threshold	Estimated Useful Life
Buildings and improvements	25,000	10-50 years
Equipment	10,000	1-20 years
Roads	25,000	25 years
Water/sewer infrastructure	25,000	20-60 years

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. 25% of sick leave is payable for employees with 5 or more years longevity; therefore, 25% of sick leave is accrued for all 5-year employees.

Vacation pay, which may be accumulated up to 56 days (448 hours), is payable upon resignation, retirement or death. A maximum of 30 days (240 hours) can be carried on December 31 of each year.

Other post-employment benefits – See Note 12.

Lifetime full medical coverage is provided to police officers who retired under the Law Enforcement Officers and Firefighters Plan 1 (LEOFF1) retirement system. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred.

Long-term debt - See Note 9.

Unearned revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Net position / Fund balance

The difference between fund assets and liabilities is "net position" on the government-wide financial statements, and is "fund balance" on the governmental fund statements.

Fund balance components

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as reserved and unreserved are now reported as restricted, assigned or unassigned.

- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by either federal or state legislation.
- Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted.
- Unassigned fund balance is the residual amount of the General Fund not included in the other two categories described above.

Note 2 - Reconciliation of government-wide and fund financial statements

A. The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets-governmental activities as reported in the government-wide Statement of Net Position.

B. The governmental fund 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.

Note 3 – Stewardship, compliance and accountability

There have been no material violations of finance-related legal or contractual provisions.

Note 4 – Deposits and investments

At December 31, 2013, the City's cash and cash equivalents (including restricted cash and investments) consisted of the following:

Petty cash/change funds	\$ 300
Columbia Bank, checking accounts	145,368
State Treasurer's Pool (cash equivalents)	<u>17,719,940</u>
Total Cash and Cash Equivalents	\$ 17,865,608

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

The city's deposits are entirely 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). The FDIC insures the first \$250,000 of the City's deposits. The deposit balances over \$250,000 are insured by the WPDPC.

In accordance with state law, all investments of the city's funds are obligations of the U.S. Government, U.S. agency issues or the State Treasurer's Investment Pool. The City reports all investments at fair value.

As of December 31, 2013, the City's had the following investments and maturities:

Investment	Fair Value	Maturities	
		Less Than One Year	One to Five years
Local Government Investment Pool	\$ 17,719,940	\$ 17,719,940	\$ -
Certificate of Deposit	1,000,000	1,000,000	-
WA State General Obligation Bond	318,978	318,978	
Federal National Mortgage Association	970,854	-	970,854
Total Investments	\$ 20,009,772	\$ 19,038,918	\$ 970,854

Investments in the state treasurer's Local Government Investment Pool (LGIP) are classified as cash equivalents in the city's financial statements.

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The City does not have a policy governing its exposure to interest rate risk, but frequently the majority, if not all, of the City's investments are in the State Treasurer's Investment Pool which reduces the City's interest rate risk due to the shorter term maturities of the investments in the Pool. As of the end of the year ended December 31, 2013 88 percent of the City's investments were in the LGIP.

Custodial credit risk. Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction, the City would not be able to recover the value of the investment in collateral securities. The City's investment policy states that all security transactions entered into by the City shall be conducted on a delivery versus payment basis whereby the securities are delivered to a third party, such as a safekeeping bank acting as an agent for the City, before payment is released. All of the City's investments, excluding the LGIP are held by the City's custodial agent in the City's name, thereby reducing the City's custodial credit risk.

Investments in the LGIP, which is a 2a7-like unrated pool, are not subject to custodial credit risk because the investments held must be evidenced by securities that exist in physical or book entry

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

form to be exposed to this type of risk. Instead, the investment in the LGIP is treated as a type of investment with a fair value equal to the net realizable value of the entity's share of the LGIP based on the Pool's valuation method. The City has reported its total investment in the LGIP at fair value.

Credit risk. State law and City policy limit investments to those authorized by State Statute including commercial paper and bonds of the State of Washington and any local government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.

Note 5 – Property Taxes

The Pierce County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
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.
October 31	Second installment is due.

Property tax revenues are recorded as a receivable when levied, offset by deferred revenue. During the year, property taxes revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 60 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The city may levy up to \$1.60 per \$1,000 of assessed valuation for general governmental services.

The city's regular levy for collection in 2013 was \$1.4066 per \$1,000 on an assessed valuation of \$1,652,017,762 for a total regular levy of \$2,323,722.

The city's excess levy for payment of the 2005 voted general obligation bonds was \$0.1523 per \$1,000 on an assessed valuation of \$1,641,479,313 for a total levy of \$250,026.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the property tax rate.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Taxes Collected in Year of Levy

Year	Regular Levy	Excess Levy	Percent Collected in Year of Levy
2013	\$2,323,722	\$250,026	98.9
2012	2,285,574	\$250,000	98.5
2011	1,961,844	250,000	92.0
2010	1,905,808	250,000	95.3
2009	1,737,590	250,000	97.6
2008	1,598,969	250,000	97.1

Note 6 – Capital assets

A. Depreciation for the year ended December 31, 2013 was as follows:

General Government	\$ 247,441
Public Safety	41,922
Transportation	1,064,114
Culture and Recreation	250,720
Total depreciation for governmental activities	<u>\$ 1,604,197</u>

Depreciation expense was charged to business-type activities as follows:

Water	\$ 228,680
Sewer	1,127,851
Stormwater	66,940
Total depreciation for business-type activities	<u>\$ 1,423,471</u>

B. Capital asset activity for the year ended December 31, 2013 was as follows:

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Governmental Activities	Beginning			Ending
Description	Balance	Increase	Decrease	Balance
Land	\$ 14,237,179	\$ -	\$ -	\$ 14,237,179
CIP	12,194,749	5,063,300	4,950,972	12,307,077
Total non-depreciable assets	26,431,928	5,063,300	4,950,972	26,544,256
Depreciable assets				
Buildings	9,729,047	285,764	-	10,014,811
Other Improvements	12,115,290	1,294,954	-	13,410,244
Machinery & Equipment	3,010,130	98,357	248,998	2,859,489
Infrastructure	20,538,411	3,271,898	-	23,810,309
Total depreciable assets	45,392,878	4,950,973	248,998	50,094,853
Less accumulated depreciation for:				
Buildings	2,512,963	337,330	-	2,850,293
Other Improvements	5,749,508	1,083,913	-	6,833,421
Machinery & Equipment	2,666,975	59,403	249,752	2,476,626
Infrastructure	1,283,851	124,305	-	1,408,156
Total accumulated depreciation	12,213,297	1,604,951	249,752	13,568,496
Total depreciable assets, net	33,179,581	3,346,022	(754)	36,526,357
Governmental activities net capital assets	\$ 59,611,509	\$ 8,409,322	\$ 4,950,218	\$ 63,070,613

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Business-type activities Description	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 542,233	\$ -	\$ -	\$ 542,233
CIP	2,246,691	4,890,773	4,428,389	2,709,075
Total non-depreciable assets	2,788,924	4,890,773	4,428,389	3,251,308
Depreciable assets				
Buildings	26,107,320	-	-	26,107,320
Other improvements	4,017,396	-	-	4,017,396
Machinery & equipment	1,790,466	16,575	25,474	1,781,567
Infrastructure	22,088,404	4,428,389	-	26,516,793
Total depreciable assets	54,003,586	4,444,964	25,474	58,423,076
Less accumulated depreciation for:				
Buildings	6,743,546	686,620	-	7,430,166
Other improvements	1,090,142	345,542	-	1,435,684
Machinery & equipment	1,430,833	92,235	25,474	1,497,594
Infrastructure	3,807,201	311,452	-	4,118,653
Total accumulated depreciation	13,071,722	1,435,849	25,474	14,482,097
Total depreciable assets, net	40,931,864	3,009,115	-	43,940,979
Business-type activities net capital assets	\$ 43,720,788	\$ 7,899,888	\$ 4,428,389	\$ 47,192,287

C. The city has the following active construction project as of December 31, 2013.

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Rosedale Sidewalk Improvements	\$735,022	\$57,277

Note 7 – 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 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an, Amendment of GASB Statements No. 25 and No. 27*.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. All Gig Harbor employees are in either Plan 2 or 3, there are no Plan 1 members in the employment of the City.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by August 31, 2002 are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after September 1, 2002 have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS Plan 2 and 3 members may opt out of plan membership if terminally ill and have less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 2 defined benefit plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but not yet receiving benefits	30,515
Active plan members vested	106,317
Active plan members not vested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, were as follows:

	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%**
Employee	4.92%	***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' fiscal year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, were as follows:

	LEOFF Plan 2
Employer*	5.23%
Employee	8.41%
State	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.

Both the city and the employees made the required contributions. The city's required contributions for the years ending December 31 were as follows:

	LEOFF Plan 2
2013	\$72,842
2012	\$72,789
2011	\$66,653

City of Gig Harbor Retirement Plan

The city also participates in a defined contribution pension retirement system called the City of Gig Harbor Retirement Plan. The plan is administered by ICMA Retirement Corporation.

As of December 31, 2013 there were a total of 129 individuals covered by this system; 88 of whom are currently employed by the city.

The Gig Harbor City Council established the plan with city ordinance 411, effective 1/1/83, as authorized by the Federal Social Security Act, 42 *USCA*, Section 418 (g). The plan was established as an alternative to the Federal Social Security System. All full-time permanent employees of the city are required to participate in the system, with the city matching the employee's required contribution.

Covered payroll for 2013 was \$5,542,091 and total city payroll was \$6,368,453. Actual city contributions during 2013 were \$346,743, which represents 100% of its current year obligation. Employee contributions during 2013 were \$387,417. Employees choose from a variety of investment funds offered and administered by ICMA Retirement Corporation. Plan assets amounted to \$12,778,414 at December 31, 2013.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Note 8 – Risk management

The City of Gig Harbor is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2013, 91 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 coverage's are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

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

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

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

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.

The specific financials of the AWC RMSA can be obtained from the AWC RMSA Annual Report on file with the City of Gig Harbor.

The city did not have any claims settlements that exceeded insurance coverage in each of the last three years: 2011, 2012 and 2013.

Note 9 - Long-term debt

The city issues general obligation and revenue bonds to finance the acquisition or construction of major capital facilities. The city has general obligation bonds outstanding which were issued for general government projects and are being repaid from governmental debt service funds. The city also has notes which were used for general governmental purposes and, therefore are repaid through the governmental debt service funds. The city also has revenue bonds outstanding. The city's water and sewer revenues are pledged to pay the debt service on these bonds. The city did not issue any bonds in 2013.

The general obligation bond debt service funds are supported with general revenues such as property, sales and utility taxes. General government compensated absences are liquidated with general governmental revenue sources.

Revenue bonds are being repaid by proprietary (water & sewer) fund revenues.

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2013, the city has \$179,849 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,382,901 in debt service funds and reserves as required by bond indentures.

The city is not subject to federal arbitrage requirements at this time.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

	2013 Beginning Balance	Increase	Decrease	2013 Ending Balance	Due in 2014
Governmental Activities					
Other Post Employment Benefits	\$ 172,609	\$ 20,678	\$ -	\$ 193,287	\$ -
Compensated absences	422,142	36,531	-	458,673	-
Other non-current obligations	\$ 594,751	\$ 57,209	\$ -	\$ 651,960	\$ -
General obligation bonds					
2005 UTGO	2,528,000	-	170,000	2,358,000	177,000
2008 LTGO	1,550,000	-	235,000	1,315,000	245,000
2010 LTGO & refunding	7,165,000	-	445,000	6,720,000	460,000
State Treasurer LOCAL Note-2008	18,328	-	18,328	-	-
Total notes and bonds	11,261,328	-	868,328	10,393,000	882,000
Total Governmental Activities	11,856,079	57,209	868,328	11,044,960	882,000

Business Type Activities

Compensated absences	\$ 171,187	\$ 25,761	\$ -	\$ 196,948	\$ -
Revenue bonds					-
2010 W/S Taxable BAB Series A	5,685,000	-	245,000	5,440,000	250,000
2010 W/S Taxable BAB Series B	5,580,000	-	-	5,580,000	-
2010 W/S Tax-exempt Series C	2,610,000	-	340,000	2,270,000	350,000
Premium on bonds payable	108,700	-	6,794	101,906	-
PWTF Loan-construction	8,470,588	-	529,412	7,941,176	529,412
Total notes and bonds	22,454,288	-	1,121,206	21,333,082	1,129,412
Total Business Type Activities	\$22,625,475	\$ 25,761	\$1,121,206	\$21,530,030	\$1,129,412

Governmental Activities

General obligation bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the city. Annual debt service requirements to maturity for general obligation bonds are as follows:

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Year Ending December 31	Principal	Interest
2014	\$ 882,000	\$ 417,455
2015	909,000	384,596
2016	945,000	348,272
2017	983,000	310,623
2018	1,020,000	271,374
2019 - 2023	3,743,000	835,949
2024 - 2026	1,911,000	123,890
Totals	\$ 10,393,000	\$ 2,692,159

The following general obligation bond/note issues are outstanding as of December 31, 2013:

Description/ Purpose	Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
2005 Unlimited Tax General Obligation Bonds; Bond proceeds were used to finance purchase of the Eddon Boatyard Property. Debt service payments are funded from excess property taxes as approved by voters in an election held November 2, 2004.	2005 - 2024	3.79%	\$3,500,000	\$2,358,000
2008 Limited Tax General Obligation Bonds; Bond proceeds were used to finance street and park projects. Debt service payments are funded from real estate excise tax.	2008 - 2018	3.98%	\$2,395,000	\$1,315,000
2010 Limited Tax General Obligation and Refunding Bonds; Refunding bonds used to advance refund the 2001 LTGO bonds maturing June 2012 through June 2026. The LTGO (new money) portion of the bond issue was used to purchase a water front property. Debt service payments are funded from general revenues.	2010 - 2016	3.0 – 4.55%	\$7,730,000	\$6,720,000

Special assessment bonds

The city uses Local Improvement Districts (LID's) to finance certain capital improvements in specific areas through the sale of special assessment bonds or notes payable. Project costs are assessed to each property owner benefiting from the improvement, with payments then used to pay debt service on the bonds or notes. LID financings are an obligation only of the LID and the related Local Improvement District Guaranty fund.

The city does not have any special assessment bonds outstanding as of December 31, 2013.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Business-Type Activities

Revenue bonds

The city finances major water, sewer and storm drainage projects by issuing revenue bonds. Water and sewer revenues are pledged to the payment of principal and interest. State of Washington public works trust fund (PWTF) loans have a lien (subordinate to the revenue bond lien) against these revenues also. The existing revenue bonds, and any issued thereafter, have a senior lien against system revenues.

The following revenue bond issues and loans are outstanding as of December 31, 2013:

Description/ Purpose	Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
2010 W/S Taxable BAB Series A; Proceeds used to construct a water main and complete wastewater treatment plant upgrades.	2010 - 2030	0.98 – 6.26%	\$6,035,000	\$5,440,000
2010 W/S Taxable BAB Series B; Proceeds used to finance construction of the outfall extension.	2010 – 2030	4.80 – 6.18%	\$5,580,000	\$5,580,000
2010 W/S Tax-exempt Series C; Proceeds used to finance construction of the outfall extension and upgrade lift stations.	2010 – 2030	2.5 – 4.0%	\$2,610,000	\$2,270,000
Public Works Trust Fund Loan - 2008 Proceeds used for design of treatment plant expansion.	2009 - 2028	0.5%	\$10,000,000	\$7,941,176

Annual debt service requirements to maturity for revenue bonds and PWTF loans in the city's business-type activities are as follows:

Year Ending December 31	Principal	Interest
2014	\$ 1,129,412	\$ 719,856
2015	1,144,412	698,424
2016	1,159,412	675,476
2017	1,179,412	651,045
2018	1,199,412	624,995
2019 - 2023	4,982,059	2,682,356
2024 - 2028	5,667,059	1,819,907
2029 - 2030	4,770,000	531,576
Totals	\$ 21,231,178	\$ 8,403,634

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Refunded debt

The City, in June 2010, issued \$6,861,964 of general obligation refunding bonds (refunding bonds) in order to refund (refinance) the 2001 LTGO bonds. The proceeds were used to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$6,520,000 of refunded debt. As a result, the refunded bonds are considered defeased and the liability has been removed from the governmental activities column of the Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$565,902 and resulted in an economic gain of \$438,805.

Note 10 – Contingencies and litigation

All material liabilities of the city are recorded in the financial statements. In the opinion of management, the city's insurance policies are adequate to pay all known or pending claims.

The city is contingently liable for repayment the refunded debt discussed in Note 9.

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 requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

Note 11 – Transfers to/from other funds

In most years the City has several routine interfund transfers. These are mostly transfers from the general fund to debt service funds for debt service and to fund various capital project activities such as property acquisition and street rehabilitation and construction. In 2013, the general fund transferred out \$590,000 for park development activities, \$680,000 for debt service and, \$500,000 to fund street construction. The Hospital Benefit Zone transferred \$1,766,374 to the Street Capital fund several street projects. The Impact Fee and Donation funds transferred \$380,000 and \$90,000 respectively for park development. The capital development funds transferred \$300,000 for debt service.

Interfund transfers through December 31, 2013 were as follows:

Transfers Out	Transfers In					
		General Fund	Street Capital Fund	Park Development	LTGO Bond Redemption	Total
	General Fund	\$ -	\$ 500,000	\$ 590,000	\$ 680,000	\$ 1,770,000
	Hospital Benefit Zone		1,766,374			1,766,374
	Non-major Funds	-		470,000	300,000	770,000
Total Transfers	\$ -	\$ 2,266,374	\$ 1,060,000	\$ 980,000	\$ 4,306,374	

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Note 12 - Postemployment Benefits Other Than Pensions (OPEB)

Plan description

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 under a defined benefit healthcare plan administered by the City. The members' necessary hospital, medical, nursing care, vision and dental not payable by worker's compensation, social security, insurance provide 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. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

The City has four LEOFF 1 retirees and no active LEOFF 1 employees.

Funding policy

Funding for LEOFF 1 retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements. During 2013, the City paid \$82,062 towards OPEB obligation.

Annual OPEB cost and net OPEB obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years as of January 1, 2009. 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 City's net OPEB obligation. The net OPEB obligation of \$193,286 is included as a noncurrent liability on the Statement of Net Position.

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

Other Post Employment Benefits Obligation
Year Ended 12/31/2013

Determination of Annual Required Contribution (ARC):

Normal Cost	\$ -
Unfunded Actuarial Accrued Liability (UAAL) Amortization	111,044
Annual Required Contribution (ARC)	<u>\$ 111,044</u>

Determination of Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$ 111,044
Interest on Net NOO	7,767
Adjustments to ARC	<u>(16,702)</u>
Annual OPEB Cost	102,740
Contributions	<u>82,062</u>
Increase in Net OPEB Obligation	<u>20,678</u>
Net OPEB - Beginning of Year	172,608
Net OPEB - End of Year	<u>\$ 193,286</u>

The City's percentage of annual OPEB contributed to the plan in 2013 is 74%.

Funded status and funding progress

As of December 31, 2013, the actuarial accrued liability (AAL) for benefits was \$1,192,566 all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the required annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about where the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial methods and assumptions

We used the alternative measurement method permitted under GASB Statement No. 45. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Miliman and used by OSA in the state-

CITY OF GIG HARBOR
Notes To The Basic Financial Statements
For the Year Ended December 31, 2013

wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligation (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.

NOTE 13 – Other Disclosures

Prior Period adjustments:

The general fund has an adjustment that decreases ending fund balance by nearly \$129,386. This is related to correction of several accounts payable balances.

NOTE 14 – Change in Accounting Principle

For the year ended December 31, 2013, the city has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This action resulted in the establishment of account categories outside of assets and liabilities titled deferred outflows and deferred inflows – of which the city does not have any to report for the year ended December 31, 2013. The Statement of Net Assets was also retitled as Statement of Net Position.

The city also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in the city expensing bond issue costs, which were previously being amortized over the life of the bonds, in 2013. The amounts expensed were \$71,320 in governmental funds and \$142,910 in business-type activities.

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2013

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/2009	\$ -	\$ 1,282,957	\$ 1,282,957	0%	\$ -	-
12/31/2010	\$ -	\$ 1,270,102	\$ 1,270,102	0%	\$ -	-
12/31/2011	\$ -	\$ 1,231,846	\$ 1,231,846	0%	\$ -	-
12/31/2012	\$ -	\$ 1,192,566	\$ 1,192,566	0%	\$ -	-
12/31/2013	\$ -	\$ 1,192,566	\$ 1,192,566	0%	\$ -	-

Schedule of Employer Contributions
for LEOFF 1 Retiree Medical Benefits

Fiscal Year Ending	Payments	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2009	\$ 63,926	\$ 119,461	54%
12/31/2010	\$ 59,906	\$ 118,264	51%
12/31/2011	\$ 73,428	\$ 114,702	64%
12/31/2012	\$ 78,500	\$ 111,044	71%
12/31/2013	\$ 82,062	\$ 111,044	74%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
US DEPT OF HOUSING & URBAN DEVELOPMENT/	Econ Dev Initiative Spec Proj	14.251	B-10-NI-WA-0006		1,200,884	1,200,884	AKA Donkey Creek - Transportation
Fish And Wildlife Service, Department Of The Interior	Fish and Wildlife Management Assistance	15.608	F10AP00023		662,611	662,611	AKA Donkey Creek Daylighting Project
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	N/A		936	936	Officer Hoey & Goss' vests purchased in 2013
Office Of Community Oriented Policing Services, Department Of Justice/	Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0894		33,919	33,919	Officer Hick's 1st & 2nd QTR 2013 entry level salary & bene
Federal Highway Administration (fhwa), Department Of Transportation/WSDOT	Highway Planning and Construction	20.205	LA-07588	82,020		82,020	Reimb #2-#4 Cushman Trail Phase 3
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA TRAFFIC SAFETY COMMISSION	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	316		316	Standard Field Sobriety Test Training
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA TRAFFIC SAFETY COMMISSION	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	279		279	Dispatch services for DUI Emphasis event on 8/17/13
Total CFDA				595	0	595	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Department Of Homeland Security/WA Parks/Rec	Boating Safety Financial Assistance	97.012	A03744	9,330		9,330	Boating Safety activities
Department Of Homeland Security/Seattle Police	Port Security Grant Program	97.056	2010-PU-TO-K033-21	10,390		10,390	DONATED laptop, tracking equip for Patrol Boat
Department Of Homeland Security/Pcty Emer Management	Homeland Security Grant Program	97.067	2010-55-TO-0084	600		600	Regional Wtr Rescue Exercise-held on May 16 2013
Department Of Homeland Security/WA Military	Buffer Zone Protection Program (BZPP)	97.078	E13-190	24,491		24,491	Night vision scopes, mounts, body harness & FLIR receiver
Total Federal Awards Expended:				127,426	1,898,350	2,025,776	

GIG HARBOR, WASHINGTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013**

Note 1 is required for all entities. Disclose other notes only if applicable to your circumstances.

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Gig Harbor's financial statements. The City of Gig Harbor uses the GAAP 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 of Gig Harbor's portion, are more than shown.

CITY OF GIG HARBOR
Supplementary Information
For the Year Ended December 31, 2013

Parity Bond Debt Service Coverage
City of Gig Harbor Water and Sewer Utility

	<u>2013</u>
Operating revenues:	
Charges for sales and services:	
Water sales	\$ 1,344,572
Sewer charges	3,632,397
Connection fees	3,595,478
Other fees and charges	10,317
Utility taxes	192,370
Total operating revenues	<u>8,775,134</u>
Operating expenses:	
Operations and maintenance	2,577,546
Administration	1,030,920
Utility taxes	185,393
Total operating expenses	<u>3,793,859</u>
Operating income (loss)	<u>4,981,275</u>
Nonoperating revenues (expenses):	
Investment interest revenue	(9,047)
Miscellaneous non-operating revenue	-
Intergovernmental and grants	1,160,777
Gain on sale of capital assets	-
Total nonoperating revenues (expenses)	<u>1,151,730</u>
Revenue Available for Debt Service	<u>\$ 6,133,005</u>
 Maximum principal and interest due in succeeding years Coverage	 \$ 1,506,894 4.07x
 Number of utility customers, as of December 31, 2013:	
	Sewer 2,238
	Water 1,985

Corrective Action Plan for Findings Reported Under OMB Circular A-133

City of Gig Harbor Pierce County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Gig Harbor.

Finding ref number: 1	Finding caption: The City does not have adequate internal controls to ensure compliance with reporting requirements. (14.251 – Economic Development Initiative)
Name, address, and telephone of auditee contact person: Dave Rodenbach 3510 Grandview Street Gig Harbor, WA 98335 (253)853-7610	
Corrective action the auditee plans to take in response to the finding: <i>The City has implemented updated controls to ensure that all future interim grant reporting is submitted on time. These controls include clear deadlines for report completion in all project schedules and/or status reports and increased coordination between departments via regular sharing of grant funded project schedules and status reports. Staff is aware that all interim reports need to be submitted in a timely fashion and any outstanding information can be reported in subsequent reports.</i>	
Anticipated date to complete the corrective action: Completed	

Finding ref number: 2	Finding caption: The City does not have adequate internal controls to ensure compliance with reporting requirements. (15.608 – Fish & Wildlife Management Assistance)
Name, address, and telephone of auditee contact person: Dave Rodenbach 3510 Grandview Street Gig Harbor, WA 98335 (253)853-7610	
Corrective action the auditee plans to take in response to the finding: <i>The City has implemented updated controls to ensure that all future interim grant reporting is submitted on time. These controls include increased coordination between departments and clear deadlines for report completion. Staff is aware that all interim reports need to be submitted in a timely fashion and outstanding information can be reported in subsequent reports.</i>	
Anticipated date to complete the corrective action: Completed	

Finding ref number: 3	Finding caption: The City did not have adequate internal controls to ensure compliance with federal procurement requirements. (15.608 – Fish & Wildlife Management Assistance)
Name, address, and telephone of auditee contact person: Dave Rodenbach 3510 Grandview Street Gig Harbor, WA 98335 (253)853-7610	
Corrective action the auditee plans to take in response to the finding: <i>Staff will update the City's procurement policies to clarify processes and requirements and include specific instructions to contact the grant agency prior to pursuing any non-standard procurement processes. Staff will be trained on the policy when it is completed.</i>	
Anticipated date to complete the corrective action: December 31, 2014	

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