



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

**Financial Statements Audit Report**  
**City of Gig Harbor**

**Pierce County**

**For the period January 1, 2015 through December 31, 2015**

**Published February 21, 2017**

**Report No. 1018595**





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

February 21, 2017

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

**Report on Financial Statements**

Please find attached our report on the City of Gig Harbor's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Summary Schedule Of Prior Audit Findings .....	4
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 .....	5
Independent Auditor’s Report On Financial Statements .....	8
Financial Section.....	11
About The State Auditor’s Office.....	80

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**City of Gig Harbor  
Pierce County  
January 1, 2015 through December 31, 2015**

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Gig Harbor. The State Auditor’s Office has reviewed the status as presented by the City.

<b>Audit Period:</b> 01/01/2014 – 12/31/2014	<b>Report Ref. No:</b> 1015344	<b>Finding Ref. No:</b> 2014-001
<b>Finding Caption:</b> The City’s internal controls over financial statement preparation are inadequate to ensure accurate and complete financial reporting.		
<b>Background:</b> The City's internal controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting. The audit identified the following deficiencies in internal controls over financial reporting: <ul style="list-style-type: none"> <li>• The City did not have adequate procedures in place to ensure all accounts receivable were included on the financial statements.</li> <li>• Staff responsible for recording accounting transactions and preparing financial statements, which includes implementing new accounting standards, did not properly interpret how to properly record deferred inflows.</li> </ul>		
<b>Status of Corrective Action:</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>In order to ensure accuracy in financial reporting, the City retained the services of an outside CPA to review the financial statements and implementation of new accounting standards.</i>		

**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, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 13, 2017. As discussed in Note 13 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

February 13, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Gig Harbor Pierce County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

#### 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 an opinion 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 opinion.

## **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, 2015, and the respective changes in financial position and, where applicable, cash flows there of, and the respective budgetary comparison for the General and Street Operating funds, 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 13 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 13 through 22, information on postemployment benefits other than pensions on page 70 and pension plan information on pages 71 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements 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 February 13, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

February 13, 2017

## FINANCIAL SECTION

**City of Gig Harbor  
Pierce County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Operating Fund – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Notes to Financial Statements – 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress for LEOFF 1 Retiree Medical Benefits – 2015

Schedule of Employer Contributions for LEOFF 1 Retiree Medical Benefits – 2015

Schedule of Proportionate Share of the Net Pension Liability PERS 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 – 2015

Schedule of Proportionate Share of the Net Pension Liability LEOFF 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability LEOFF 2 – 2015

Schedule of Employer Contributions PERS 1 – 2015

Schedule of Employer Contributions PERS 2/3 – 2015  
Schedule of Employer Contributions LEOFF 1 – 2015  
Schedule of Employer Contributions LEOFF 2 – 2015

## **SUPPLEMENTARY AND OTHER INFORMATION**

Parity Bond Debt Service Coverage – 2015

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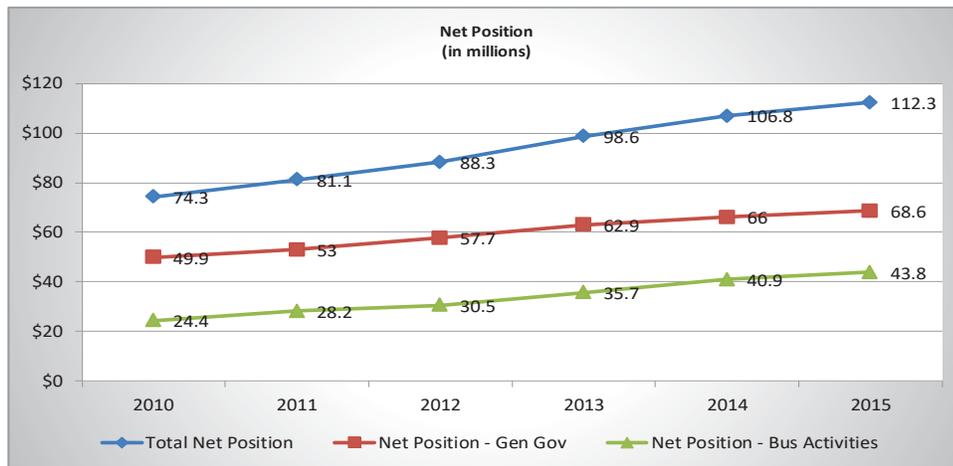
City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015

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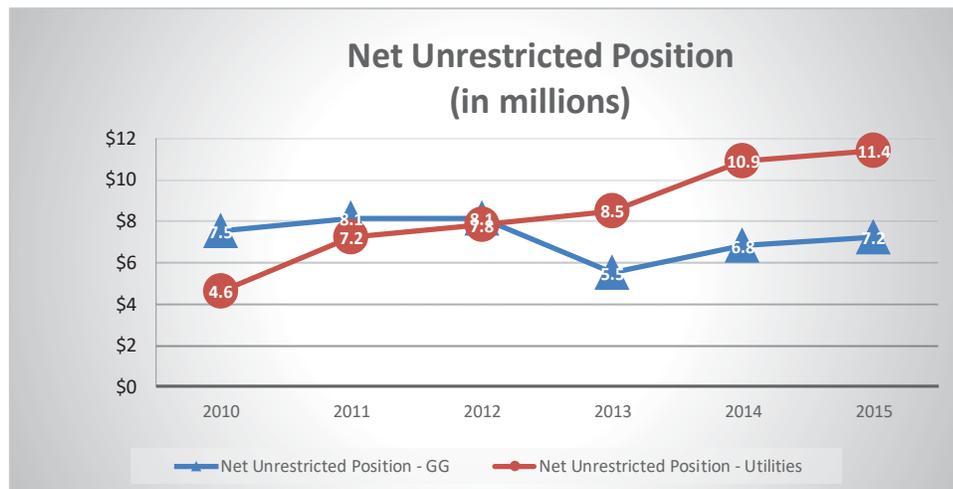
This discussion and analysis provides an overview of the City of Gig Harbor's annual financial report for the fiscal year ended December 31, 2015. The city's financial performance is discussed and analyzed within the context of the accompanying financial statements.

**Financial Highlights**

- The city's total net position including all funds is \$112.3 million. This is a \$5.5 million or 5.1 percent increase over the prior year and compares with \$8.2, \$10.3, \$7.2, \$6.8 and \$7.6 million increases in 2014 through 2010 respectively.



- Net unrestricted position remained unchanged from 2014 at \$17.7 million.



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City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015

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Net investment in capital assets increased from to \$82.3 million to \$86.6 million.

- Net capital assets increased from \$113.7 million to \$118.1 million.
- Total tax revenue increased \$1.4 million in 2015. This compares with a \$122,000 increase in 2014. Taxes collected include property, retail sales, and business and excise taxes.
- Cash and investments of \$30.5 million are up \$6.3 million over 2014. This is a 26 percent increase over the prior year. Governmental activities account for \$3.8 million of this increase while business-type activities account for the remainder.
- City-wide short-term liabilities (due in 2016, excluding short-term portion of long-term debt) are \$2.1 million.
- The city has total liabilities of \$39.3 million of which \$37.1 million are non-current liabilities.

#### 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 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,

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City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015

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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 19 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 (*Public Art Capital Projects, Civic Center Debt Reserve, Strategic Reserve, Equipment Reserve, and Lighthouse Maintenance funds are consolidated into the general fund for reporting purposes*), Street Operating, Park Development and Hospital Benefit Zone (HBZ) Revenue funds. Data for the other governmental funds (*Non-Major 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 and street operating funds 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.

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City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015

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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 plus deferred outflows of resources minus liabilities and deferred inflows of resources) was \$112.3 million. Governmental activities make up \$68.6 million of this balance while the city's business-type activities (water/sewer and storm) own the remaining balance of \$43.8 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 (\$85.7 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, 2015 the city held \$8.0 million of the City's net position is restricted. Most of this is related to assets in the Impact Fee Trust and Hospital Benefit Zone capital project funds; and in utility (business-type activities) debt service funds which are restricted by state law or 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 increased to \$18.6 million in 2015.

**City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015**

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Current and other assets	\$ 17,264,485	\$ 14,552,167	\$ 15,918,973	\$ 13,326,480	\$ 33,183,458	\$ 27,878,647
Capital assets, net	64,395,924	64,129,357	53,747,543	49,532,412	118,143,467	113,661,769
Net pension asset	616,182	-	-	-	616,182	-
<b>Total assets</b>	<b>82,276,591</b>	<b>78,681,524</b>	<b>69,666,516</b>	<b>62,858,892</b>	<b>151,943,107</b>	<b>141,540,416</b>
<b>Deferred outflow of resources</b>						
Deferred outflows related to pensions	421,126	-	203,183	-	624,309	-
<b>Total deferred outflows</b>	<b>421,126</b>	<b>-</b>	<b>203,183</b>	<b>-</b>	<b>624,309</b>	<b>-</b>
<b>Liabilities</b>						
Other liabilities	804,587	1,581,936	1,300,304	799,356	2,104,891	2,381,292
Long-term liabilities	12,642,350	10,363,506	24,504,219	21,142,713	37,146,569	31,506,219
<b>Total liabilities</b>	<b>13,446,937</b>	<b>11,945,442</b>	<b>25,804,523</b>	<b>21,942,069</b>	<b>39,251,460</b>	<b>33,887,511</b>
<b>Deferred inflow of resources</b>						
Property taxes	39,548	38,628	-	-	39,548	38,628
Grant reimbursements	-	801,408	-	-	-	801,408
Deferred inflows related to pensions	635,661	-	276,450	-	912,111	-
<b>Total deferred inflows</b>	<b>675,209</b>	<b>840,036</b>	<b>276,450</b>	<b>-</b>	<b>951,659</b>	<b>840,036</b>
<b>Net position</b>						
Net investment in capital assets	55,410,711	53,654,996	31,234,802	28,598,405	86,645,513	82,253,401
Restricted	6,603,913	5,438,262	1,399,835	1,437,860	8,003,748	6,876,122
Unrestricted	6,560,947	6,802,788	11,154,089	10,880,558	17,715,036	17,683,346
<b>Total net position</b>	<b>\$ 68,575,571</b>	<b>\$ 65,896,046</b>	<b>\$ 43,788,726</b>	<b>\$ 40,916,823</b>	<b>\$ 112,364,297</b>	<b>\$ 106,812,869</b>

Governmental operating revenues (general revenues plus program revenues excluding capital grants and contributions) increased from \$14.6 million in 2014 to \$16.9 million in 2015.

Capital grants and contributions were down from \$2.2 million in 2014 to \$2.1 million in 2015.

General government expenses were up about \$872,000 over 2014. Culture and recreation (Parks) and security of persons and property (Police) accounted for most of this increase.

Total net position for the city's business-type activities (Water/Sewer and Storm) ended the year at \$43.8 million. This is a \$2.9 million increase over the prior year.

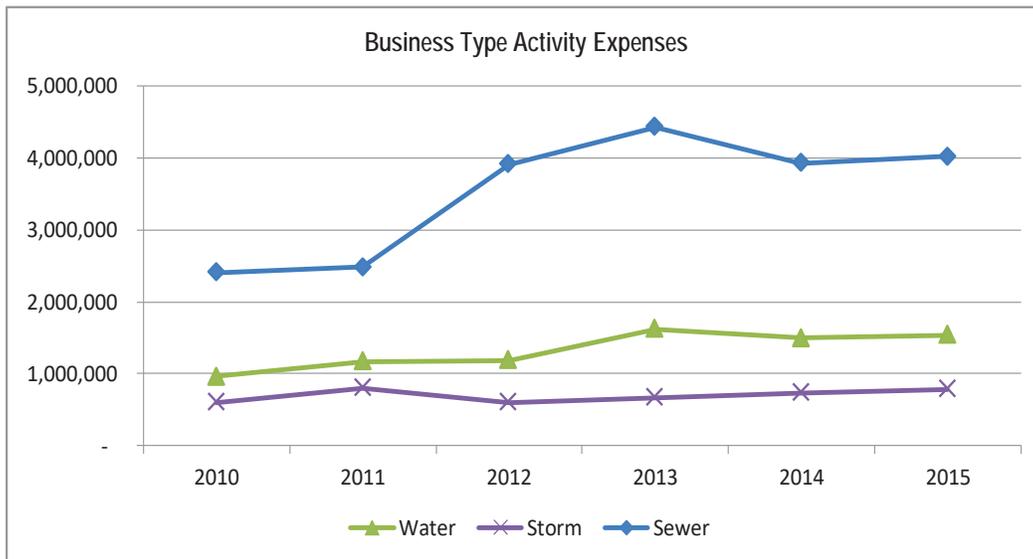
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City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015

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City of Gig Harbor business-type operating revenues were \$6.6 million. This is a \$400,000 increase over 2014 operating revenues of \$6.2 million. The increase is attributable to growth and a rate increase which took effect in August.

Operating expenses for Water-Sewer increased 2.5 percent or \$135,000 in 2015. Storm water expenses were up 6.1 percent (\$45,000) over 2014.



The largest portion of the business-type activities net position (\$31.2 million) is accounted for in the net investment in capital assets category.

Restricted net position in the business-type activities is \$1.4 million. The restriction is due to revenue bond covenants for debt service on the outstanding 2010 revenue bonds; while the balance of net position in the amount of \$11.2 million is unrestricted.

**City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015**

Table 2  
Changes in net position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
<b>Program revenues</b>						
Charges for services	\$ 3,195,765	\$ 2,363,506	\$ 6,614,046	\$ 6,179,215	\$ 9,809,811	\$ 8,542,721
Operating grants/contributions	91,180	78,685	231,214	329,498	322,394	408,183
Capital grants/contributions	2,132,642	2,152,649	4,038,286	4,155,855	6,170,928	6,308,504
<b>General revenues</b>						
Sales and use tax	8,365,934	7,802,036	-	-	8,365,934	7,802,036
Property tax	2,605,386	2,474,409	-	-	2,605,386	2,474,409
Other taxes	2,688,622	1,974,570	237,833	216,585	2,926,455	2,191,155
<b>Total revenues</b>	<b>\$19,153,117</b>	<b>\$16,845,855</b>	<b>\$11,121,379</b>	<b>\$10,881,153</b>	<b>\$30,274,496</b>	<b>\$27,727,008</b>
<b>Program expenses</b>						
Judicial	407,981	2,638,458	-	-	407,981	2,638,458
General government	2,550,271	393,373	-	-	2,550,271	393,373
Public safety	3,273,849	2,913,239	-	-	3,273,849	2,913,239
Physical Environment/Utilities	7,150	5,642	6,335,371	6,154,928	6,342,521	6,160,570
Transportation	2,907,983	3,190,585	-	-	2,907,983	3,190,585
Economic Environment	1,858,275	1,676,012	-	-	1,858,275	1,676,012
Culture & Recreation	1,909,273	1,125,825	-	-	1,909,273	1,125,825
Interest on long-term debt	390,389	454,212	-	-	390,389	454,212
<b>Total Expenses</b>	<b>13,305,171</b>	<b>12,397,346</b>	<b>6,335,371</b>	<b>6,154,928</b>	<b>19,640,542</b>	<b>18,552,274</b>
<b>Increase in net position</b>	<b>\$ 5,847,946</b>	<b>\$ 4,448,509</b>	<b>\$ 4,786,008</b>	<b>\$ 4,726,225</b>	<b>\$ 10,633,954</b>	<b>\$ 9,174,734</b>
<b>Net position, January 1</b>	<b>65,896,046</b>	<b>62,924,916</b>	<b>40,916,823</b>	<b>35,684,003</b>	<b>106,812,869</b>	<b>98,608,919</b>
Prior period adjustment	(3,168,421)	(1,477,379)	(1,914,105)	506,595	(5,082,526)	(970,784)
<b>Net position, December 31</b>	<b>\$68,575,571</b>	<b>\$65,896,046</b>	<b>\$43,788,726</b>	<b>\$40,916,823</b>	<b>\$112,364,297</b>	<b>\$106,812,869</b>

**FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS**

At the end of 2015, the city's governmental funds had a combined ending fund balance of \$16.5 million. This is a \$4.3 million increase from the \$12.2 million ending fund balance reported in 2014.

Due to very strong development activity, 2015 operating revenues were up \$1.8 million over 2014. This, coupled with a \$1.6 million decline in capital expenditures produced the bulk of the increase in fund balance for 2015.

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City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015

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**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 \$16.5 million. About 41 percent (\$6.8 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 (\$3.0 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 \$3.7 million. The bulk of this balance is restricted for capital projects, debt service and economic development.

General fund revenues increased 12.8 percent or \$1.4 million in 2015. Taxes, which were up \$637,000, and permits, which were up \$672,000, are the major contributors to this increase.

General Fund expenditures increased \$529,000 in 2015 to \$8.4 million, as compared with \$7.9 million for 2014. The increase is attributed to the functional areas listed below:

	2014	2015	Increase / (Decrease)
Judicial	\$ 393,373	\$ 419,775	\$ 26,402
General government	2,342,199	2,400,173	57,974
Security of persons and property	2,867,519	3,128,669	261,150
Physical environment	5,642	7,150	1,508
Transportation	-	10,000	10,000
Economic environment	1,441,621	1,625,226	183,605
Mental and physical health	1,629	1,936	307
Culture and recreation	859,380	847,928	(11,452)
	<u>\$ 7,911,363</u>	<u>\$ 8,440,857</u>	<u>\$ 529,494</u>

General government includes operating expenses of the City Council, Administration (which includes finance legal and information services), all non-departmental costs and operation of the civic center. Security of persons and property includes police department activities, fire related expenses and jail costs. Economic environment includes all costs related to planning, building and code enforcement activities. Culture and recreation includes all park operations, programming and maintenance. Capital outlays are major purchases or projects.

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

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City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2015

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**BUDGETARY HIGHLIGHTS**

**General and Street Operating Fund Budget Analysis:** The following is a brief review of the budgeting changes from the adopted to the amended final budget for the General Fund. Please note that budget to actual comparisons are presented for the major current expense and special revenue fund in the fund financial statements section immediately following the city-wide statements.

The General Fund budget increased \$809,005 in total resources and uses. The proposed uses for this increase were a \$222,375 increase in the Building and Fire Safety departmental budget and a \$586,630 increase in ending fund balance.

The Street Operating fund did not have any changes of the original adopted budget; nor were there any significant variations from budget to actual in 2015.

**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 \$43.8 million at year-end. Of this amount, \$11.4 million is liquid and available to meet future obligations; with about \$1.4 million of this amount being restricted for revenue bond debt service.

Water and sewer monthly (billed bi-monthly) revenues increased 11.6 and 8.8 percent respectively to \$1.6 and \$4.1 million. General facilities charges (connection fees) for water and sewer were \$1.1 and \$2.5 million respectively. Storm sewer revenues for monthly service and system connections were \$798,000 and \$409,000 respectively.

Water & sewer operating expenses are up \$122,000 from 2014.

**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, 2015 totals \$85.7 million. This is an increase of \$2.6 million over 2014. The city's governmental activities own \$54.7 million of this total and the Water-Sewer-Storm system owns \$31.0 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, grants, utility connection fees and monthly user charges. Long-term debt is also considered in order to fund capital asset acquisitions.

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**City of Gig Harbor**  
**Management Discussion and Analysis**  
**December 31, 2015**

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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, 2015; unlimited (voted) general obligation (UTGO), limited general obligation (LTGO), State Treasurer's certificates of participation (LOCAL), 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.

The city participated in the Washington State Treasurer's Local Option Capital Asset Lending (LOCAL) program in 2014. Through this program, the city borrowed \$234,227 over a term of five years for the purchase of vehicles and equipment. The city also borrowed \$283,131 in 2015 over a five year term.

At fiscal year-end the city had \$31,357,827 in total bonded debt outstanding, not including premiums of \$141,753 on bonds payable. This total does not include \$768,878 and \$223,102 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.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
LTGO bonds	\$6,605,000	\$ 7,330,000	\$ -	\$ -	\$ 6,605,000	\$ 7,330,000
UTGO bonds	1,997,000	2,181,000	-	-	1,997,000	2,181,000
Water/Sewer Revenue bonds	-	-	12,075,000	12,690,000	12,075,000	12,690,000
PWTF	-	-	10,205,750	8,061,556	10,205,750	8,061,556
Certificates of Participation	342,871	152,167	132,206	82,060	475,077	234,227
<b>Total</b>	<b>\$8,944,871</b>	<b>\$ 9,663,167</b>	<b>\$22,412,956</b>	<b>\$20,833,616</b>	<b>\$31,357,827</b>	<b>\$30,496,783</b>

**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, 2015**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 15,706,759	\$ 13,814,370	\$ 29,521,129
Investments	-	1,000,397	1,000,397
Receivables			
Taxes	1,473,042	-	1,473,042
Accounts and contracts	84,684	1,104,206	1,188,890
Capital assets not being depreciated			
Land	15,927,210	542,233	16,469,443
Construction in progress	1,341,664	10,100,784	11,442,448
Capital assets net of accumulated depreciation:			
Buildings	8,503,581	18,601,904	27,105,485
Improvements other than buildings	11,894,466	11,236,245	23,130,711
Machinery and equipment	680,853	465,003	1,145,856
Infrastructure	26,048,150	12,801,374	38,849,524
Net pension asset	616,182	-	616,182
<b>Total assets</b>	<b>82,276,591</b>	<b>69,666,516</b>	<b>151,943,107</b>
<b>Deferred outflows of resources</b>			
Deferred outflows related to pensions	421,126	203,183	624,309
<b>Total deferred outflows of resources</b>	<b>421,126</b>	<b>203,183</b>	<b>624,309</b>
<b>Liabilities</b>			
Accounts payable	752,633	968,609	1,721,242
Retainage payable	-	144,260	144,260
Bond interest payable	31,349	187,435	218,784
Contract payable	20,605	-	20,605
Noncurrent liabilities:			
Due within one year	1,011,068	1,461,967	2,473,035
Due in more than one year	8,744,168	21,272,731	30,016,899
Net pension liability	2,887,114	1,769,521	4,656,635
<b>Total liabilities</b>	<b>13,446,937</b>	<b>25,804,523</b>	<b>39,251,460</b>
<b>Deferred inflows of resources</b>			
Property taxes	39,548	-	39,548
Deferred inflows related to pensions	635,661	276,450	912,111
<b>Total deferred inflows of resources</b>	<b>675,209</b>	<b>276,450</b>	<b>951,659</b>
<b>Net position</b>			
Net investment in capital assets	55,410,711	31,234,802	86,645,513
Restricted for:			
Capital acquisition	5,775,531	-	5,775,531
Debt service	212,200	1,399,835	1,612,035
Pensions	616,182	-	616,182
Unrestricted	6,560,947	11,154,089	17,715,036
<b>Total net position</b>	<b>\$ 68,575,571</b>	<b>\$ 43,788,726</b>	<b>\$ 112,364,297</b>

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

**City of Gig Harbor  
Statement of Activities  
Year Ended December 31, 2015**

**City of Gig Harbor  
Statement of Activities  
For the Year Ended December 31, 2015**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
Judicial	\$ 407,981	\$ 220,156	\$ -	\$ -	\$ (187,825)	\$ -	\$ (187,825)
General government	2,550,271	444,937	-	-	(2,105,334)	-	(2,105,334)
Public safety	3,273,849	38,013	37,710	-	(3,198,126)	-	(3,198,126)
Physical environment/utilities	7,150	547	-	-	(6,603)	-	(6,603)
Transportation	2,907,983	532,632	-	411,551	(1,963,800)	-	(1,963,800)
Economic environment	1,858,275	1,956,772	9,000	-	107,497	-	107,497
Culture & recreation	1,909,273	2,030	44,470	1,721,091	(141,682)	-	(141,682)
Interest on long-term debt	390,389	678	-	-	(389,711)	-	(389,711)
Total governmental activities	13,305,171	3,195,765	91,180	2,132,642	(7,885,584)	-	(7,885,584)
<b>Business-type activities:</b>							
Water	1,535,439	1,658,881	48,231	1,097,264	-	1,268,937	1,268,937
Sewer	4,017,865	4,162,761	145,935	2,532,418	-	2,823,249	2,823,249
Storm water	782,067	792,404	37,048	408,604	-	455,989	455,989
Total business-type activities	6,335,371	6,614,046	231,214	4,038,286	-	4,548,175	4,548,175
Total government	\$ 19,640,542	\$ 9,809,811	\$ 322,394	\$ 6,170,928	\$ (7,885,584)	\$ 4,548,175	\$ (3,337,409)
General revenues:							
Taxes:							
Property taxes					\$ 2,605,386	\$ -	\$ 2,605,386
Retail sales taxes					8,365,934	-	8,365,934
Business taxes					1,365,671	237,833	1,603,504
Excise & other taxes					1,322,951	-	1,322,951
Miscellaneous - incl. investment earnings					73,588	-	73,588
Total general revenues					13,733,530	237,833	13,971,363
Change in net position					5,847,946	4,786,008	10,633,954
Net position - beginning					65,896,046	40,916,823	106,812,869
Change in Accounting Principle					(2,714,893)	(1,914,105)	(4,628,998)
Prior period adjustment					(453,528)	-	(453,528)
Net position - ending					\$ 68,575,571	\$ 43,788,726	\$ 112,364,297

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

**City of Gig Harbor  
Governmental Funds  
Balance Sheet  
December 31, 2015**

	General	Street Operating	Park Development	HBZ Revenue	Other Governmental	Governmental Fund Total
<b>Assets</b>						
Cash and cash equivalents	\$ 5,924,527	\$ 421,788	\$ 2,643,793	\$ 2,961,775	\$ 3,753,840	\$ 15,705,723
Accounts receivable						
Taxes	1,418,273	-	-	-	54,769	1,473,042
Accounts and contracts	55,100	7,681	-	-	21,903	84,684
<b>Total assets</b>	<b>7,397,900</b>	<b>429,469</b>	<b>2,643,793</b>	<b>2,961,775</b>	<b>3,830,512</b>	<b>17,263,449</b>
Deferred outflows of resources	-	-	-	-	-	-
<b>Liabilities and fund balance</b>						
<b>Liabilities:</b>						
Accounts payable	568,274	45,242	50,741	-	88,375	752,632
Other Payables	17,605	3,000	-	-	-	20,605
<b>Total liabilities</b>	<b>585,879</b>	<b>48,242</b>	<b>50,741</b>	<b>-</b>	<b>88,375</b>	<b>773,237</b>
<b>Deferred inflows of resources</b>						
Property taxes	35,202	-	-	-	4,346	39,548
<b>Total deferred inflows of resources</b>	<b>35,202</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,346</b>	<b>39,548</b>
<b>Fund balances:</b>						
<b>Restricted for:</b>						
Debt service	-	-	-	-	212,201	212,201
Capital projects	-	-	-	2,961,775	2,813,756	5,775,531
Economic development	-	-	-	-	356,363	356,363
Public safety	-	-	-	-	27,648	27,648
<b>Assigned to:</b>						
Debt service	1,371,859	-	-	-	-	1,371,859
Parks	-	-	2,593,052	-	-	2,593,052
Streets	-	381,227	-	-	327,823	709,050
Other purposes	848,219	-	-	-	-	848,219
Unassigned	4,556,741	-	-	-	-	4,556,741
<b>Total fund balances</b>	<b>6,776,819</b>	<b>381,227</b>	<b>2,593,052</b>	<b>2,961,775</b>	<b>3,737,791</b>	<b>16,450,664</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 7,397,900</b>	<b>\$ 429,469</b>	<b>\$ 2,643,793</b>	<b>\$ 2,961,775</b>	<b>\$ 3,830,512</b>	<b>\$ 17,263,449</b>

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

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**Reconciliation of the Balance Sheet  
 To the Statement of Net Position  
 Governmental Funds  
 December 31, 2015**

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Total fund balance of governmental funds: \$ 16,450,664

Amounts reported for governmental activities in the statement of net position is 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	\$	15,927,210
Buildings and structures		11,934,334
Infrastructure		31,592,226
Improvements		18,649,040
Machinery and equipment		3,056,610
Construction in progress		1,341,664

Less: accumulated depreciation \$ (18,105,160) 64,395,924

Net pension asset is not reported in governmental funds 616,182

Long term payables and other adjustments that are not reported in governmental funds (244,850)

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. (12,642,350)

Net position of governmental activities \$ 68,575,571

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The notes to the financial statements 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, 2015**

	General	Street Operating	Park Development	Hospital Benefit Zone Revenue	Other Governmental	Total
<b>Revenues</b>						
Taxes	\$ 9,711,857	\$ -	\$ -	\$ 2,086,017	\$ 1,822,843	\$ 13,620,717
Licenses and permits	2,046,251	20,875	-	-	-	2,067,126
Intergovernmental revenues	169,904	168,260	1,219,491	-	24,884	1,582,539
Charges for services	270,359	323,891	-	-	476,666	1,070,916
Fines and forfeits	137,884	-	-	-	152	138,036
Miscellaneous	175,618	11,573	2,030	4,583	36,371	230,175
<b>Total revenues</b>	<b>12,511,873</b>	<b>524,599</b>	<b>1,221,521</b>	<b>2,090,600</b>	<b>2,360,916</b>	<b>18,709,509</b>
<b>Expenditures</b>						
Current:						
Judicial	419,775	-	-	-	-	419,775
General government	2,400,173	-	-	-	-	2,400,173
Security of persons and property	3,128,705	-	-	-	524	3,129,229
Physical environment	7,150	-	-	-	-	7,150
Transportation	10,000	1,818,468	-	-	312	1,828,780
Economic environment	1,625,226	-	-	-	285,270	1,910,496
Mental and physical health	1,936	-	-	-	-	1,936
Culture and recreation	847,928	-	49,573	-	-	897,501
Debt service:						
Principal	-	-	-	-	935,637	935,637
Interest and other debt service costs	-	-	-	-	385,515	385,515
Capital outlay	365,770	43,589	1,699,051	-	676,020	2,784,430
<b>Total expenditures</b>	<b>8,806,663</b>	<b>1,862,057</b>	<b>1,748,624</b>	<b>-</b>	<b>2,283,278</b>	<b>14,700,622</b>
Excess of revenues over (under) expenditures	3,705,210	(1,337,458)	(527,103)	2,090,600	77,638	4,008,887
<b>Other financing sources (uses)</b>						
Capital asset disposal	32,009	-	-	-	-	32,009
Bond Proceeds	243,500	-	-	-	920	244,420
Transfers in	109,974	1,450,000	1,523,000	-	1,402,600	4,485,574
Transfers out	(2,455,000)	-	-	(1,733,000)	(297,574)	(4,485,574)
<b>Total other financing sources and uses</b>	<b>(2,069,517)</b>	<b>1,450,000</b>	<b>1,523,000</b>	<b>(1,733,000)</b>	<b>1,105,946</b>	<b>276,429</b>
<b>Net change in fund balance</b>	<b>1,635,693</b>	<b>112,542</b>	<b>995,897</b>	<b>357,600</b>	<b>1,183,584</b>	<b>4,285,316</b>
<b>Fund balance at beginning of year</b>	<b>5,141,126</b>	<b>268,685</b>	<b>1,597,155</b>	<b>2,604,175</b>	<b>2,554,207</b>	<b>12,165,348</b>
Prior period adjustment	-	-	-	-	-	-
<b>Fund balance at end of year</b>	<b>\$ 6,776,819</b>	<b>\$ 381,227</b>	<b>\$ 2,593,052</b>	<b>\$ 2,961,775</b>	<b>\$ 3,737,791</b>	<b>\$ 16,450,664</b>

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

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City of Gig Harbor  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balance of  
Governmental Funds to the Statement of Activities  
December 31, 2015

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Net change in fund balance - total governmental funds \$ 4,285,316

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

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	3,529,569	
Less current year depreciation	<u>(2,366,581)</u>	1,162,988

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

Long-term debt interest accruals	(31,349)	
Long-term debt proceeds	(218,172)	
Principal payments	<u>936,468</u>	686,947

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>(287,305)</u>	(287,305)
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Change in net position of governmental activities		<u>\$ 5,847,946</u>
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The notes to the financial statements 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, 2015

	2015-16 Biennial Budget		Actual Amounts	Variance
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 20,042,406	\$ 19,683,815	\$ 9,711,857	\$ (9,971,958)
Licenses and permits	2,002,586	2,662,439	2,046,251	(616,188)
Intergovernmental revenues	227,389	314,532	169,904	(144,628)
Charges for services	534,368	588,189	270,359	(317,830)
Fines and forfeits	208,018	263,763	137,884	(125,879)
Miscellaneous	285,262	370,449	175,618	(194,831)
<b>Total revenues</b>	<b>23,300,029</b>	<b>23,883,187</b>	<b>12,511,873</b>	<b>(11,371,314)</b>
<b>Expenditures</b>				
Current:				
Judicial	859,200	859,200	419,775	439,425
General government	5,480,851	5,480,851	2,400,173	3,080,678
Security of persons and property	6,864,864	6,864,864	3,128,705	3,736,159
Physical environment	11,971	11,971	7,150	4,821
Transportation	20,000	20,000	10,000	10,000
Economic environment	3,318,020	3,525,395	1,625,226	1,900,169
Mental and physical health	1,400	1,400	1,936	(536)
Culture and recreation	1,894,600	1,894,600	847,928	1,046,672
Capital outlay	219,800	219,800	365,770	(145,970)
<b>Total expenditures</b>	<b>18,670,706</b>	<b>18,878,081</b>	<b>8,806,663</b>	<b>10,071,418</b>
Excess of revenues over (under) expenditures	4,629,323	5,005,106	3,705,210	(1,299,896)
<b>Other financing sources (uses)</b>				
Bond Proceeds	366,900	366,900	243,500	
Capital asset disposal	6,314	6,314	32,009	(25,695)
Transfers in	289,000	289,000	109,974	179,026
Transfers out	(6,262,000)	(6,262,000)	(2,455,000)	3,807,000
Total other financing sources (uses)	(5,599,786)	(5,599,786)	(2,069,517)	3,530,269
<b>Net change in fund balance</b>	<b>(970,463)</b>	<b>(594,680)</b>	<b>1,635,693</b>	<b>2,230,373</b>
<b>Fund balance - beginning</b>	<b>6,021,396</b>	<b>6,021,396</b>	<b>5,141,126</b>	<b>(880,270)</b>
<b>Fund balance - ending</b>	<b>\$ 5,050,933</b>	<b>\$ 5,426,716</b>	<b>\$ 6,776,819</b>	<b>\$ 1,350,103</b>

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

**City of Gig Harbor**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Budget and Actual**  
**Street Operating Fund**  
**For the Year Ended December 31, 2015**

	2015-16 Biennial Budget		Actual Amounts	Variance
	Original Budget	Final Budget		
<b>Revenues</b>				
Licenses and permits	\$ 31,265	\$ 31,265	\$ 20,875	\$ (10,390)
Intergovernmental revenues	333,917	333,917	168,260	(165,657)
Charges for Service	345,059	345,059	323,891	(21,168)
Miscellaneous	196,009	196,009	11,573	(184,436)
<b>Total revenues</b>	<b>906,250</b>	<b>906,250</b>	<b>524,599</b>	<b>(381,651)</b>
<b>Expenditures</b>				
Current:				
Transportation	3,950,921	3,950,921	1,818,468	2,132,453
Capital outlay	62,000	62,000	43,589	18,411
<b>Total expenditures</b>	<b>4,012,921</b>	<b>4,012,921</b>	<b>1,862,057</b>	<b>2,150,864</b>
Excess of revenues over (under) expenditures	<b>(3,106,671)</b>	<b>(3,106,671)</b>	<b>(1,337,458)</b>	<b>1,769,213</b>
<b>Other financing sources (uses)</b>				
Capital asset disposal	10,422	10,422	-	(10,422)
Transfers in	2,900,000	2,900,000	1,450,000	(1,450,000)
<b>Total other financing sources (uses)</b>	<b>2,910,422</b>	<b>2,910,422</b>	<b>1,450,000</b>	<b>(1,460,422)</b>
<b>Net change in fund balance</b>	<b>(196,249)</b>	<b>(196,249)</b>	<b>112,542</b>	<b>308,791</b>
<b>Fund balances - beginning</b>	<b>268,685</b>	<b>268,685</b>	<b>268,685</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 72,436</b>	<b>\$ 72,436</b>	<b>\$ 381,227</b>	<b>\$ 308,791</b>

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

City of Gig Harbor  
Statement of Net Position  
Proprietary Funds  
December 31, 2015

Assets	Water-Sewer Utility	Storm Sewer Operating	Total
<b>Current assets:</b>			
Cash and cash equivalents	\$ 12,087,778	\$ 1,332,977	\$ 13,420,755
Accounts and contracts	882,336	216,047	1,098,383
<b>Total current assets</b>	<b>12,970,114</b>	<b>1,549,024</b>	<b>14,519,138</b>
<b>Noncurrent assets:</b>			
Restricted cash and investments:			
Cash and cash equivalents	393,615	-	393,615
Investments	1,000,397	-	1,000,397
Receivables	5,823	-	5,823
Land	542,233	-	542,233
Buildings	26,701,714	-	26,701,714
Improvements other than buildings	27,385,691	3,857,997	31,243,688
Machinery and equipment	1,598,133	460,519	2,058,652
Construction in progress	9,884,475	216,309	10,100,784
Less accumulated depreciation	(15,323,859)	(1,575,670)	(16,899,529)
Capital assets, net of accumulated depreciation	50,788,387	2,959,155	53,747,542
<b>Total noncurrent assets</b>	<b>52,188,222</b>	<b>2,959,155</b>	<b>55,147,377</b>
<b>Total assets</b>	<b>65,158,336</b>	<b>4,508,179</b>	<b>69,666,515</b>
<b>Deferred outflows of resources</b>			
Deferred outflows related to pensions	169,498	34,716	204,214
<b>Total deferred outflows of resources</b>	<b>169,498</b>	<b>34,716</b>	<b>204,214</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	940,298	19,626	959,924
Matured revenue bonds payable	1,453,094	8,873	1,461,967
Revenue bond interest payable	187,435	-	187,435
Other payables	149,317	3,627	152,944
<b>Total current liabilities</b>	<b>2,730,144</b>	<b>32,126</b>	<b>2,762,270</b>
<b>Noncurrent Liabilities:</b>			
Compensated absences payable	174,491	47,467	221,958
Net pension liability	1,468,702	300,819	1,769,521
Revenue bonds payable (net of unamortized premium)	21,006,869	43,904	21,050,773
<b>Total noncurrent liabilities</b>	<b>22,650,062</b>	<b>392,190</b>	<b>23,042,252</b>
<b>Total liabilities</b>	<b>25,380,206</b>	<b>424,316</b>	<b>25,804,522</b>
<b>Deferred inflows of resources</b>			
Deferred inflows related to pensions	230,310	47,172	277,482
<b>Total deferred inflows of resources</b>	<b>230,310</b>	<b>47,172</b>	<b>277,482</b>
<b>Net position</b>			
Net investment in capital assets	28,328,424	2,906,378	31,234,802
Restricted for debt service	1,399,835	-	1,399,835
Unrestricted	9,989,059	1,165,029	11,154,088
<b>Total net position</b>	<b>\$ 39,717,318</b>	<b>\$ 4,071,407</b>	<b>\$ 43,788,725</b>

The notes to the financial statements 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, 2015**

	Water-Sewer Utility	Storm Sewer Operating	Total
<b>Operating revenues:</b>			
Water sales	\$ 1,636,960	\$ -	\$ 1,636,960
Sewer charges	4,114,791	-	4,114,791
Storm sewer charges	-	797,818	797,818
Connection charges	3,629,682	408,604	4,038,286
Other fees and charges	265,195	3,719	268,914
<b>Total operating revenues</b>	<b>9,646,628</b>	<b>1,210,141</b>	<b>10,856,769</b>
<b>Operating expenses:</b>			
Operations and maintenance	2,199,586	237,994	2,437,580
Administration	1,151,711	361,404	1,513,115
Depreciation	1,326,605	167,008	1,493,613
Utility taxes	178,597	15,672	194,269
<b>Total operating expenses</b>	<b>4,856,499</b>	<b>782,078</b>	<b>5,638,577</b>
<b>Operating income (loss)</b>	<b>4,790,129</b>	<b>428,063</b>	<b>5,218,192</b>
<b>Nonoperating revenues (expenses):</b>			
Intergovernmental revenue	194,166	37,048	231,214
Investment earnings	29,021	1,691	30,712
Interest expense	(694,988)	-	(694,988)
Other debt service expense	(1,816)	-	(1,816)
Gain on sale of capital assets	1,770	923	2,693
<b>Total nonoperating revenues (expenses)</b>	<b>(471,847)</b>	<b>39,662</b>	<b>(432,185)</b>
<b>Changes in net position</b>	<b>4,318,282</b>	<b>467,725</b>	<b>4,786,007</b>
<b>Total net position-beginning</b>	<b>36,987,743</b>	<b>3,929,080</b>	<b>40,916,823</b>
Change in Accounting Principle	(1,588,707)	(325,398)	(1,914,105)
<b>Total net position-ending</b>	<b>\$ 39,717,318</b>	<b>\$ 4,071,407</b>	<b>\$ 43,788,725</b>

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

**CITY OF GIG HARBOR**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2015**

	Enterprise Funds		
	Total Water/Sewer Utility	Storm Sewer	Total Enterprise Fund
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 5,893,705	\$ 786,623	\$ 6,680,328
Payments to suppliers	(1,050,565)	(194,941)	(1,245,506)
Payments to employees	(2,113,449)	(475,072)	(2,588,521)
Other receipts (payments)	3,668,781	412,323	4,081,104
Net cash provided (used) by operating activities	<u>6,398,472</u>	<u>528,933</u>	<u>6,927,405</u>
<b>Cash Flows from Non-capital Financing Activities</b>			
Subsidy from federal grant	194,166	37,048	231,214
Net cash provided (used) by non-capital financing activities	<u>194,166</u>	<u>37,048</u>	<u>231,214</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(5,413,213)	(140,401)	(5,553,614)
Proceeds from issuance of capital debt	2,859,752	37,407	2,897,159
Principle paid on revenue bond maturities	(1,312,246)	(34,448)	(1,346,694)
Interest paid on revenue bonds	(702,208)	(410)	(702,618)
Proceeds from disposal of capital assets	3,540	-	3,540
Net cash provided (used) by capital and related financing activities	<u>(4,564,375)</u>	<u>(137,852)</u>	<u>(4,702,227)</u>
<b>Cash Flows from Investing Activities</b>			
Interest received from investments	27,901	1,691	29,592
Net cash provided by investing activities	<u>27,901</u>	<u>1,691</u>	<u>29,592</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>2,056,164</u>	<u>429,820</u>	<u>2,485,984</u>
<b>Cash and cash equivalents, beginning</b>	<u>10,425,229</u>	<u>903,157</u>	<u>11,328,386</u>
<b>Cash and cash equivalents, ending</b>	<u>\$ 12,481,393</u>	<u>\$ 1,332,977</u>	<u>\$ 13,814,370</u>
<b>Reconciliation of Operating Income to Net Cash</b>			
Provided (Used) by Operating Activities:			
Operating income (loss)	4,790,129	428,063	5,218,192
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,326,605	167,008	1,493,613
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	425,212	(42,830)	382,382
Increase (decrease) in GASB 68 adjustment	(58,888)	(12,113)	(71,001)
(Increase) decrease in accounts receivable	(84,586)	(11,195)	(95,781)
Total adjustments	<u>281,738</u>	<u>(66,138)</u>	<u>215,600</u>
<b>Net cash provided by operating activities</b>	<u>\$ 6,398,472</u>	<u>\$ 528,933</u>	<u>\$ 6,927,405</u>

The city did not participate in any non-cash investing, capital, or financing activities in 2015.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**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.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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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 Public Art Capital Projects, Civic Center Debt Reserve, Strategic Reserve, Equipment Reserve 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 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.
- 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.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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- 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 Operating Fund*

This special revenue 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.

*Park Development Fund*

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

*Hospital Benefit Zone Revenue Fund*

This capital projects 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:**

*Street Capital Fund*

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

*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.

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

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CITY OF GIG HARBOR  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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*Federal Drug Investigation Fund*

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.

*Donations Fund*

This fund is used as a special revenue fund to account for donations.

*LTGO Bond Redemption Fund*

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

*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.

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

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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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**

The City of Gig Harbor budgets in accordance with the provisions of the Revised Code of Washington (RCW) 35A.34. Biennial appropriated budgets are adopted for all of the City's funds.

In March 2014, the City Council passed Ordinance No. 1287 authorizing the change to biennial budgeting effective for the budget years of 2015 - 2016. A biennial budget was adopted by Ordinance No. 1306 December 8, 2014.

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. These are then incorporated into the biennial budget.

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.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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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.

**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 2015 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.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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It is the city's policy to invest all temporary cash surpluses.

At December 31, 2015, the treasurer was holding \$29,521,129 in cash on hand and in bank, deposits and short-term investments of surplus cash.

**Investments – see Note 4.**

**Receivables**

The City's annual property tax levy is billed and collected by Pierce County. Taxes collected by the County, but not remitted to the City by year-end, are reported as receivables. Taxes are levied and become a lien on the first day of the calendar year. When property taxes become three years delinquent, the County is required by State statute to foreclose 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, 2015, the city does not have any special assessments outstanding.

**Restricted Assets**

Restricted assets are those funds which are reserved for debt service by 2010 Water/Sewer revenue bond covenants.

At December 31, 2015, the restricted assets of the enterprise funds are composed of the following:

Cash & cash equivalents - debt service	\$ 393,615
Investments - debt service	\$1,000,397
Interest receivable	\$ 5,823

**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. Assets purchased with federal funds are capitalized at the \$5,000 threshold.

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.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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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 expense for 2015 was \$1,085,377. The City did not have any debt-financed capital projects under construction in 2015; therefore all 2015 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.

	<b>Capitalization Threshold</b>	<b>Estimated Useful Life</b>
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.

**Pensions**

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

**Long-term debt - See Note 9.**

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**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 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. The authority for assignment of funds is not required to be the government’s highest level of decision making authority. Furthermore, the constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on committed fund balances. The City Council may authorize executive officers to assign fund balances for specific purposes through Council files, ordinances and resolutions.
- 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**

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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At December 31, 2015, the City's cash and cash equivalents (including restricted cash and investments) consisted of the following:

Petty cash/change funds	\$	300
Columbia Bank, (City and Court) checking accounts		540,830
State Treasurer's Pool (cash equivalents)		<u>28,979,999</u>
<b>Total Cash and Cash Equivalents</b>		<b>\$ 29,521,129</b>

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, 2015, 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	\$ 28,979,999	\$ 28,979,999	\$ -
Federal National Mortgage Association	1,000,397	-	1,000,397
<b>Total Investments</b>	<b>\$ 29,980,396</b>	<b>\$ 28,979,999</b>	<b>\$ 1,000,397</b>

Investments in the state treasurer's Local Government Investment Pool (LGIP) are classified as cash equivalents in the city's financial statements, and; therefore are not reported as investments in the Statement of Net Position.

*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, 2015 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

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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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 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 inflow of resources. 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 2015 was \$1.2475 per \$1,000 on an assessed valuation of \$1,858,377,519 for a total regular levy of \$2,318,381.

The city's excess levy for payment of the 2005 voted general obligation bonds was \$0.1624 per \$1,000 on an assessed valuation of \$1,847,120,988 for a total levy of \$300,000.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

**Taxes Collected in Year of Levy**

<b>Year</b>	<b>Regular Levy</b>	<b>Excess Levy</b>	<b>Percent Collected in Year of Levy</b>
2015	\$2,318,381	\$300,000	98.8
2014	\$2,207,695	\$250,000	99.8
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

**Note 6 – Capital assets**

A. Depreciation for the year ended December 31, 2015 was as follows:

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 95,149
Public Safety	106,770
Transportation	1,131,614
Culture and Recreation	1,033,038
<b>Total depreciation for governmental activities</b>	<b><u>\$ 2,366,571</u></b>

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

Water	\$ 271,123
Sewer	1,055,483
Stormwater	167,008
<b>Total depreciation for business-type activities</b>	<b><u>\$ 1,493,614</u></b>

B. Capital asset activity for the year ended December 31, 2015 was as follows:

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

**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

Governmental Activities Description	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 15,515,610	\$ 411,600	\$ -	\$ 15,927,210
CIP	3,434,676	1,119,030	3,212,042	1,341,664
Total non-depreciable assets	<u>18,950,286</u>	<u>1,530,630</u>	<u>3,212,042</u>	<u>17,268,874</u>
Depreciable assets				
Buildings	11,978,223	15,648	59,537	11,934,334
Other Improvements	14,939,530	4,350,907	641,397	18,649,040
Machinery & Equipment	2,663,567	549,904	156,861	3,056,610
Infrastructure	31,587,770	67,421	62,965	31,592,226
Total depreciable assets	<u>61,169,090</u>	<u>4,983,880</u>	<u>920,760</u>	<u>65,232,210</u>
Less accumulated depreciation for:				
Buildings	3,074,983	355,770	-	3,430,753
Other Improvements	6,079,369	675,205	-	6,754,574
Machinery & Equipment	2,371,117	256,069	251,429	2,375,757
Infrastructure	4,464,549	1,079,527	-	5,544,076
Total accumulated depreciation	<u>15,990,018</u>	<u>2,366,571</u>	<u>251,429</u>	<u>18,105,160</u>
Total depreciable assets, net	<u>45,179,072</u>	<u>2,617,309</u>	<u>669,331</u>	<u>47,127,050</u>
Governmental activities net capital assets	<u>\$ 64,129,358</u>	<u>\$ 4,147,939</u>	<u>\$ 3,881,373</u>	<u>\$ 64,395,924</u>

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

**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

Business-type activities Description	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 542,233	\$ -	\$ -	\$ 542,233
CIP	5,185,615	5,117,880	202,711	10,100,784
Total non-depreciable assets	5,727,848	5,117,880	202,711	10,643,017
Depreciable assets				
Buildings	26,701,714	-	-	26,701,714
Other improvements	13,424,522	-	-	13,424,522
Machinery & equipment	2,019,836	84,083	45,260	2,058,659
Infrastructure	17,109,668	709,492	-	17,819,160
Total depreciable assets	59,255,740	793,575	45,260	60,004,055
Less accumulated depreciation for:				
Buildings	7,498,808	601,002	-	8,099,810
Other improvements	1,842,817	345,460	-	2,188,277
Machinery & equipment	1,547,231	91,679	45,260	1,593,650
Infrastructure	4,562,320	455,473	-	5,017,793
Total accumulated depreciation	15,451,176	1,493,614	45,260	16,899,530
Total depreciable assets, net	43,804,564	(700,039)	-	43,104,525
<b>Business-type activities net capital assets</b>	<b>\$ 49,532,412</b>	<b>\$ 4,417,841</b>	<b>\$ 202,711</b>	<b>\$ 53,747,542</b>

C. The city has the following active construction project as of December 31, 2015.

Project	Spent to Date	Remaining Commitment
Wastewater Plant Ph 2 upgrades	\$5,843,693	\$3,678,598
Storage Tank Maintenance	\$ 375,173	\$ 22,373

**Note 7 – Pension Plans**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$4,656,635
Pension assets	\$ 616,182
Deferred outflows of resources	\$ 624,309

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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Deferred inflows of resources	\$ 912,111
Pension expense/expenditures	\$ 249,805

**State Sponsored Pension Plans**

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

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

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

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

**Public Employees' Retirement System (PERS)**

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

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

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

**Contributions**

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

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

The city's actual contributions to the plan were \$240,774 for the year ended December 31, 2015.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after The notes to the financial statements are an integral part of this statement.

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

**Contributions**

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

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

The city's actual contributions to the plan were \$317,826 for the year ended December 31, 2015.

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

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

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

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

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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- 5-9 years of service – 1% of FAS

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

**Contributions**

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

**Contributions**

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The city's actual contributions to the plan were \$79,240 for the year ended December 31, 2015.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

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**Discount Rate**

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

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

**Long-Term Expected Rate of Return**

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

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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The notes to the financial statements are an integral part of this statement.

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

**Sensitivity of NPL**

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$3,010,662	\$2,472,818	\$2,010,321
PERS 2/3	6,385,593	2,183,817	(1,033,326)
LEOFF 1	(48,576)	(75,929)	(99,242)
LEOFF 2	\$ 541,028	\$ (540,253)	\$(1,353,958)

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2015, the city reported a total pension liability of \$4,656,635 and a total pension asset of \$616,182. The city's proportionate share of the net pension liabilities as follows:

	Liability	Asset
PERS 1	\$ 2,472,818	
PERS 2/3	2,183,817	
LEOFF 1		\$ 75,929
LEOFF 2		540,253
<b>Total Net Pension Liability/Asset</b>	<b>\$ 4,656,635</b>	<b>\$ 616,182</b>

The amount of the asset reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the city. The amount recognized by the city as its proportionate share of the

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

	Asset
LEOFF 2 – Employer’s proportionate share	\$ 540,253
LEOFF 2 – State’s proportionate share of the net pension asset associated with the employer	50,941
<b>TOTAL</b>	<b>\$ 591,194</b>

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.047694%	0.047273%	(0.000421)%
PERS 2/3	0.061406%	0.061119%	(0.000287)%
LEOFF 1	0.006248%	0.006300%	0.000052%
LEOFF 2	0.051019%	0.052564%	0.001545%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2015, the city recognized pension expense/(Gain) as follows:

	Pension Expense/(Gain)
PERS 1	\$ (125,513)
PERS 2/3	(62,164)
LEOFF 1	(15,412)
LEOFF 2	(46,716)
<b>TOTAL</b>	<b>\$ (249,805)</b>

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

At December 31, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$	\$135,290
Contributions subsequent to the measurement date	\$129,798	\$
<b>TOTAL</b>	<b>\$129,798</b>	<b>\$135,290</b>

PERS Plan 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$232,140	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$582,975
Changes of assumptions	\$ 3,519	\$
Changes in proportion and differences between contributions and proportionate share of		

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

**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

contributions	\$	\$9,235
Contributions subsequent to the measurement date	\$169,234	\$
<b>TOTAL</b>	<b>\$404,893</b>	<b>\$592,210</b>

LEOFF Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$	\$12,818
<b>TOTAL</b>	<b>\$</b>	<b>\$12,818</b>

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$47,308	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$163,693
Changes of assumptions	\$1,425	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$ 8,098
Contributions subsequent to the measurement date	\$40,885	\$
<b>TOTAL</b>	<b>\$89,618</b>	<b>\$171,791</b>

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2	Total
2016	(33,823)	(79,149)	(3,205)	(33,109)	(149,286)
2017	(33,823)	(79,149)	(3,205)	(33,109)	(149,286)
2018	(33,823)	(79,149)	(3,205)	(33,109)	(149,286)
2019	(33,821)	(119,106)	(3,203)	(33,109)	(189,239)
2020	-	-	-	7,815	7,815
2021	-	-	-	1,563	1,563
<b>Total</b>	<b>(135,290)</b>	<b>(356,553)</b>	<b>(12,818)</b>	<b>(123,058)</b>	<b>(627,719)</b>

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

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CITY OF GIG HARBOR  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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### City of Gig Harbor Retirement Plan - Defined Contribution

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, 2015 there were a total of 142 individuals covered by this system; 96 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. Employees contribute 6.2 percent of their gross pay and the city matches with a 6.2 percent contribution less the cost of a long term disability and life insurance premium. All employees are 100 percent vested upon entry into the Plan; and normal retirement age is 59.5.

Covered payroll for 2015 was \$5,857,955 and total city payroll was \$6,902,575. Actual city contributions during 2015 were \$389,214, which represents 100% of its current year obligation; and the 2015 pension expense for the Plan. Employee contributions during 2015 were \$411,953. Employees choose from a variety of investment funds offered and administered by ICMA Retirement Corporation. Plan assets amounted to \$14,187,856 at December 31, 2015.

The plan is currently 100 percent funded and the city has no outstanding liability relative to the Plan.

### 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, 2015, 102 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  
The notes to the financial statements are an integral part of this statement.

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased from Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2015, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

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

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

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: 2013, 2014 and 2015.

**Note 9 - Long-term debt**

The city issues general obligation and revenue bonds to finance the acquisition of equipment or construction of major capital facilities. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. The city has general obligation bonds outstanding which were issued for general government projects and are being repaid from governmental debt service funds. In addition, 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 is also liable for notes that were entered into for the purchase of vehicles and equipment. The entire

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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balance of the notes is a general obligation of the city, with the exception of the debt service on the 2014 note, which is being paid as follows: General governmental debt service funds - 65 percent, Water/Sewer - 29 percent and Storm – six percent.

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 with proprietary (water, sewer and storm) fund revenues.

In proprietary funds, 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, 2015, the city has \$211,233 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,399,835 in debt service funds and reserves as required by bond indentures.

The City had no arbitrage rebate liability for outstanding tax exempt bonds in 2015.

The City's long term liabilities are as follows:

	2015			2015	
	Beginning		Decrease	Ending	
	Balance	Increase		Balance	Due in 2016
<b>Governmental Activities</b>					
Other Post Employment Benefits	\$ 212,119	\$ 10,983	\$ -	\$ 223,102	\$ -
Net Pension Liability	1,489,617	1,397,497	-	2,887,114	-
Compensated absences	478,434	68,487	-	546,921	-
<b>Other non-current obligations</b>	<b>\$ 2,180,170</b>	<b>\$ 1,476,967</b>	<b>\$ -</b>	<b>\$ 3,657,137</b>	<b>\$ -</b>
General obligation bonds					
2005 UTGO	2,181,000	-	184,000	1,997,000	190,000
2008 LTGO	1,070,000	-	250,000	820,000	260,000
2010 LTGO & refunding	6,260,000	-	475,000	5,785,000	495,000
State Treasurer LOCAL Note-2014	152,167	-	27,468	124,699	28,877
Premium on Note	9,786	7,831	3,523	14,094	-
State Treasurer LOCAL Note-2015	-	218,172	-	218,172	37,191
Premium on Note	-	26,248	-	26,248	-
Total notes and bonds	<u>9,672,953</u>	<u>252,251</u>	<u>939,991</u>	<u>8,985,213</u>	<u>1,011,068</u>
<b>Total Governmental Activities</b>	<b><u>11,853,123</u></b>	<b><u>1,729,218</u></b>	<b><u>939,991</u></b>	<b><u>12,642,350</u></b>	<b><u>1,011,068</u></b>

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

**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

	Beginning Balance	Increase	Decrease	Ending Balance	Due in 2016
<b>Business Type Activities</b>					
Net Pension Liability	912,991	856,530	-	1,769,521	-
Compensated absences	\$ 208,706	\$ 13,251	\$ -	\$ 221,957	\$ -
<b>Other non-current obligations</b>	<b>\$ 1,121,697</b>	<b>\$ 869,781</b>	<b>\$ -</b>	<b>\$ 1,991,478</b>	<b>\$ -</b>
Revenue bonds					-
2010 W/S Taxable BAB Series A	5,190,000	-	255,000	4,935,000	260,000
2010 W/S Taxable BAB Series B	5,580,000	-	-	5,580,000	-
2010 W/S Tax-exempt Series C	1,920,000	-	360,000	1,560,000	370,000
Premium on bonds payable	95,112	-	6,794	88,318	-
PWTF Loan-Outfall construction	7,411,764	-	529,412	6,882,352	529,412
PWTF Loan-WWTP Ph 2 const.	649,791	2,829,002	155,395	3,323,398	275,909
State Treasurer LOCAL Note-2014	82,060	-	14,813	67,247	15,572
Premium on Note	5,277	-	-	5,277	-
State Treasurer LOCAL Note-2015	-	64,959	-	64,959	11,073
Premium on Note	-	7,816	-	7,816	-
<b>Total notes and bonds</b>	<b>20,934,004</b>	<b>2,901,777</b>	<b>1,321,414</b>	<b>22,514,367</b>	<b>1,461,966</b>
<b>Total Business Type Activities</b>	<b>\$ 22,055,701</b>	<b>\$ 3,771,558</b>	<b>\$ 1,321,414</b>	<b>\$ 24,505,845</b>	<b>\$ 1,461,966</b>

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**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:

Year Ending December 31	Principal	Interest
2016	\$ 1,011,068	\$ 362,834
2017	1,055,347	321,605
2018	1,096,003	278,595
2019	852,845	233,731
2020	849,608	198,139
2021 - 2025	3,500,000	518,188
2026	580,000	13,050
<b>Totals</b>	<b>\$ 8,944,871</b>	<b>\$ 1,926,142</b>

The following general obligation bond/note issues are outstanding as of December 31, 2015:

Description/ Purpose	Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
<b>2005 Unlimited Tax General Obligation Bonds;</b> 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	\$1,997,000
<b>2008 Limited Tax General Obligation Bonds;</b> 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	\$ 820,000
<b>2010 Limited Tax General Obligation and Refunding Bonds;</b> 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	\$5,785,000
<b>2014 Notes Payable;</b> original issue amount \$234,227; dated 8/28/2014; bearing interest at 1.17% with a final maturity date of June 1, 2019. Proceeds were used to purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.	2014 - 2019	1.17%	\$152,167	\$ 124,699

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

**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

2015 Notes Payable; original issue amount \$283,131; dated 9/24/2015; bearing interest at 1.46428% with a final maturity date of December 1, 2020. Proceeds were used to purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.	2015 - 2020	1.46428%	\$218,172	\$ 218,172
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**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, 2015.

**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, 2015:

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	\$4,935,000
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	\$1,560,000
Public Works Trust Fund Loan - 2008 Proceeds used for design of treatment plant expansion.	2009 - 2028	0.5%	\$10,000,000	\$6,882,352

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

**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

<b>Public Works Trust Fund Loan - 2014</b> Wastewater Treatment Plant Improvements, Treatment Plan Upgrade Phase 2. Total loan amount upon project completion will be \$5,950,000.	2014 - 2034	0.5%	\$649,791	\$3,323,398
<b>2014 Notes Payable;</b> original issue amount \$234,227; dated 8/28/2014; bearing interest at 1.17% with a final maturity date of June 1, 2019. Proceeds were used to purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.	2014 - 2019	1.17%	\$82,060	\$ 56,469
<b>2015 Notes Payable;</b> original issue amount \$283,131; dated 9/24/2015; bearing interest at 1.46428% with a final maturity date of December 1, 2020. Proceeds were used to purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.	2015 - 2020	1.46428%	\$ 64,958	\$ 64,958

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
2016	\$ 1,461,966	\$ 700,820
2017	1,484,194	677,986
2018	1,505,659	649,093
2019	1,532,197	614,624
2020	1,529,793	583,202
2021 - 2025	7,976,604	2,508,409
2026 - 2030	7,737,781	1,409,842
2031 - 2032	551,818	4,139
<b>Totals</b>	<b>\$ 23,228,194</b>	<b>\$ 7,143,976</b>

**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

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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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.

Interfund transfers through December 31, 2015 were as follows:

Transfers In					
Transfers Out	General Fund	Street Operating	Park Development	Non-major	Total
General Fund	\$ 105,000	\$ 1,450,000	\$ 100,000	\$ 800,000	\$ 2,455,000
Hospital Benefit Zone	-	-	1,423,000	310,000	1,733,000
Non-major Funds	4,974			292,600	297,574
<b>Total Transfers</b>	<b>\$ 109,974</b>	<b>\$ 1,450,000</b>	<b>\$ 1,523,000</b>	<b>\$ 1,402,600</b>	<b>\$ 4,485,574</b>

**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.

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

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CITY OF GIG HARBOR  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**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 2015, the City paid \$81,365 towards the 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 \$223,102 is included as a noncurrent liability on the Statement of Net Position.

**Other Post Employment Benefits Obligation**  
**Year Ended 12/31/2015**

<b>Determination of Annual Required Contribution (ARC):</b>	
Normal Cost	\$ -
Unfunded Actuarial Accrued Liability (UAAL) Amortization	102,554
Annual Required Contribution (ARC)	<u>\$ 102,554</u>
<b>Determination of Net OPEB Obligation (NOO):</b>	
Annual Required Contribution (ARC)	\$ 102,554
Interest on Net NOO	9,545
Adjustments to ARC	(19,750)
Annual OPEB Cost	<u>92,349</u>
Contributions	<u>81,365</u>
Increase in Net OPEB Obligation	<u>10,984</u>
Net OPEB - Beginning of Year	212,118
Net OPEB - End of Year	<u>\$ 223,102</u>

The City's percentage of annual OPEB contributed to the plan in 2015 is 88%.

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**Funded status and funding progress**

As of December 31, 2015, the actuarial accrued liability (AAL) for benefits was \$1,101,388 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 Milliman and used by OSA in the state-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 – Prior Period Adjustments and Changes in Accounting Principles**

Adjustments related to prior periods are corrections incorporated into the 2015 financial statements.

Fund/Account	Government-Wide Statement Amount	Fund Financial Statement Amount	Reason
General Fixed Assets Account Group	(79,064)	-	This entry corrects the city's capital asset accounts.
Adjust Construction in Progress	(374,463)		
General Fund	(2,714,894)		This entry is to reflect the cumulative effect of a change in accounting principle related to implementation of GASB 68 and 71.
	<u>\$ (3,168,421)</u>	<u>\$ -</u>	
Water/Sewer Fund	(1,588,707)	(1,588,707)	This entry is to reflect the cumulative effect of a change in accounting principle related to implementation of GASB 68 and 71.
Storm Sewer Fund	(325,398)	(325,398)	This entry is to reflect the cumulative effect of a change in accounting principle related to implementation of GASB 68 and 71.
	<u>\$ (1,914,105)</u>	<u>\$ (1,914,105)</u>	

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

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**CITY OF GIG HARBOR**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**GASB Statements 68 and 71 Implementation**

The City implemented GASB Statement 68, Accounting and Financial Reporting for Pensions and GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement 68) in 2015. These Statements address accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

Implementation of GASB Statements 68 and 71 resulted in changes in the Statement of Net Position including an increase in net pension liabilities of \$4,656,635, an increase in net pension assets of \$616,182, an increase in deferred outflows of resources of \$624,309 and an increase in deferred inflows of resources of \$912,111. Changes impacting the Statement of Activities resulted in a decrease in pension expense of \$249,803, and decreases in net assets of \$2,714,894 for governmental activities and \$1,914,105 for business type activities due to changes in accounting principles. In addition, the Required Supplementary Information section includes Schedules of Proportionate Share of the Net Pension Liability and Schedules of Employer Contributions for each pension plan.

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

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

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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	-	-	-
12/31/2011	-	1,231,846	1,231,846	-	-	-
12/31/2012	-	1,192,566	1,192,566	-	-	-
12/31/2013	-	1,192,566	1,192,566	-	-	-
12/31/2014	-	1,158,746	1,158,746	-	-	-
12/31/2015	\$ -	\$ 1,101,388	\$ 1,101,388	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%
12/31/2014	79,764	107,895	74%
12/31/2015	\$ 81,365	\$ 102,554	79%

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Schedule of Proportionate Share of the Net Pension Liability  
 PERS 1  
 As of June 30, 2015  
 Last 10 Fiscal Years\*

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	2014	2015
Employer's proportion of the net pension liability (asset)	0.047694%	0.047273%
Employer's proportionate share of the net pension liability	2,402,608	2,472,818
TOTAL	2,402,608	2,472,818
Employer's covered employee payroll	-	-
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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**Schedule of Proportionate Share of the Net Pension Liability**  
**PERS 2/3**  
**As of June 30, 2015**  
**Last 10 Fiscal Years\***

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	<u>2014</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	6.140600%	6.119000%
Employer's proportionate share of the net pension liability	1,241,237	2,183,817
TOTAL	<u>1,241,237</u>	<u>2,183,817</u>
Employer's covered employee payroll	<u>5,291,050</u>	<u>5,490,664</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	<u>23.46%</u>	<u>39.77%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>93.29%</u>	<u>89.20%</u>

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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**Schedule of Proportionate Share of the Net Pension Liability**  
**LEOFF 1**  
**As of June 30, 2015**  
**Last 10 Fiscal Years\***

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	<u>2014</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.006248%	0.006300%
Employer's proportionate share of the net pension liability (asset)	(75,775)	(75,929)
TOTAL	<u>(75,775)</u>	<u>(75,929)</u>
Employer's covered employee payroll	-	-
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	126.91%	127.36%

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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Schedule of Proportionate Share of the Net Pension Liability  
 LEOFF 2  
 As of June 30, 2015  
 Last 10 Fiscal Years\*

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	<u>2014</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.051019%	0.052564%
Employer's proportionate share of the net pension liability (asset)	(677,044)	(540,253)
State's proportionate share of the net pension liability (asset) associated with the employer	(46,859)	(50,941)
TOTAL	(723,903)	(591,194)
Employer's covered employee payroll	1,462,846	1,566,117
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	49.49%	37.75%
Plan fiduciary net position as a percentage of the total pension liability	116.75%	111.67%

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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Schedule of Employer Contributions  
PERS 1  
As of December 31, 2015  
Last 10 Fiscal Years\*

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	<u>2014</u>	<u>2015</u>
Statutorily or contractually required contributions	206,532	246,573
Contributions in relation to the statutorily or contractually required contributions	<u>(206,532)</u>	<u>(246,573)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered employer payroll	<u>-</u>	<u>-</u>
Contributions as a percentage of covered employee payroll	<u>N/A</u>	<u>N/A</u>

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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Schedule of Employer Contributions  
PERS 2/3  
As of December 31, 2015  
Last 10 Fiscal Years\*

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	<u>2014</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	207,599	315,640
<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>(207,599)</u>	<u>(315,640)</u>
<u>Contribution deficiency (excess)</u>	<u>-</u>	<u>-</u>
<u>Covered employer payroll</u>	<u>5,291,050</u>	<u>5,490,664</u>
<u>Contributions as a percentage of covered employee payroll</u>	<u>3.92%</u>	<u>5.75%</u>

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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Schedule of Employer Contributions  
LEOFF 1  
As of December 31, 2015  
Last 10 Fiscal Years\*

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	<u>2014</u>	<u>2015</u>
Statutorily or contractually required contributions	-	-
Contributions in relation to the statutorily or contractually required contributions	-	-
Contribution deficiency (excess)	-	-
Covered employer payroll	-	-
Contributions as a percentage of covered employee payroll	0.00%	0.00%

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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Schedule of Employer Contributions  
LEOFF 2  
As of December 31, 2015  
Last 10 Fiscal Years\*

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	<u>2014</u>	<u>2015</u>
Statutorily or contractually required contributions	73,874	79,240
Contributions in relation to the statutorily or contractually required contributions	<u>(73,874)</u>	<u>(79,240)</u>
Contribution deficiency (excess)	-	-
Covered employer payroll	<u>1,462,846</u>	<u>1,566,117</u>
Contributions as a percentage of covered employee payroll	<u>5.05%</u>	<u>5.06%</u>

*\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.*

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

	<u>2015</u>
<b>Operating revenues:</b>	
<b>Charges for sales and services:</b>	
Water sales	\$ 1,636,960
Sewer charges	4,114,791
Connection fees	3,629,682
Other fees and charges	265,195
Utility taxes	226,096
<b>Total operating revenues</b>	<u><b>9,872,724</b></u>
<b>Operating expenses:</b>	
Operations and maintenance	2,199,586
Administration	1,151,711
Utility taxes	178,597
<b>Total operating expenses</b>	<u><b>3,529,894</b></u>
<b>Operating income (loss)</b>	<u><b>6,342,830</b></u>
<b>Nonoperating revenues (expenses):</b>	
Investment interest revenue	29,021
Intergovernmental and grants	194,166
<b>Total nonoperating revenues (expenses)</b>	<u><b>224,957</b></u>
<b>Revenue Available for Debt Service</b>	<u><b>\$ 6,567,787</b></u>
Maximum principal and interest due in succeeding years Coverage	\$ 1,506,894 4.36x
Number of utility customers, as of December 31, 2015:	
Sewer	2,595
Water	2,313

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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