



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### City of Gig Harbor

Pierce County

For the period January 1, 2014 through December 31, 2014

Published September 28, 2015

Report No. 1015288





## Washington State Auditor's Office

September 28, 2015

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

### Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Gig Harbor's financial statements and compliance with federal laws and regulations.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

**City of Gig Harbor  
Pierce County  
January 1, 2014 through December 31, 2014**

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

### **Financial Statements**

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

#### **Internal Control Over Financial Reporting:**

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

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

### **Federal Awards**

#### **Internal Control Over Major Programs:**

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following was a major program during the period under audit:

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

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

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

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**City of Gig Harbor  
Pierce County  
January 1, 2014 through December 31, 2014**

**2014-001    The City's internal controls over financial statement preparation are inadequate to ensure accurate and complete financial reporting.**

***Background***

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified a material weakness in internal controls over financial statement reporting that affected the City's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses as defined below in the Applicable Laws and Regulations section, as a finding.

***Description of Condition***

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- During financial statement preparation, the City did not have adequate procedures in place to ensure all accounts receivable were included on the financial statements.
- 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.

***Cause of Condition***

Although the City did dedicate time and resources towards researching complex transactions and implementing new accounting standards, standards were not interpreted correctly.

## ***Effect of Condition***

Our audit identified the following financial statement errors:

- The City did not report \$801,408 of grant revenue receivable within its Park Development Fund.
- The City did not report \$38,628 of unavailable property taxes receivable as required by GASB Statement No. 65.

## ***Recommendation***

We recommend the City strengthen its internal controls over financial reporting as follows:

- Ensure staff responsible for recording accounting transactions and preparing financial statements has the necessary resources to properly record transactions and prepare accurate and complete financial statements. This should include adequate research of complex transactions, to ensure proper accounting in accordance with Generally Accepted Accounting Principles.
- Ensure a person knowledgeable of the required format and information performs an independent review of the financial statements and notes at the appropriate level of detail to ensure all transactions were accounted for and reported properly.

## ***City's Response***

*The City appreciates the opportunity to respond to the observations and conclusions drawn by the staff of the Washington State Auditor's Office; and the additional review process that is performed by the State Auditor's Office as it provides increased assurance that the City's financial statements are presented fairly, in all material respects, and in accordance with the applicable reporting framework that could affect the conclusions and decisions of a financial statement user.*

*The preparation of the Annual Financial Report is complex and the frequency of changes in Government Accounting Standards Board (GASB) pronouncements creates challenges for all governments, especially those with smaller accounting departments. This finding was a function of not fully integrating some of those newer standards. City officials researched those new standards and made their decisions based upon their understanding of those standards*

*This finding does not suggest or imply that the city misused or lost any funds or money. In simple terms, the Auditor is saying that the city failed to list grant money owed to the city as a “receivable” in 2014. All of that money was received in early 2015 and properly applied and accounted for at that time.*

*City staff, in preparing the 2014 annual report, failed to include uncollected property taxes in the amount of \$38,628 as a receivable. This amount was not considered to be significant at time of financial statement preparation, and was omitted.*

*Grant receivables in the amount of \$801,407.66 were also not included in year-end accounts receivable. The funds were received in March and April 2015, therefore, were not qualified to be 2014 grant revenues, but should have been classified as deferred inflows of resources.*

*The 2014 financial statements have been adjusted to include these amounts as receivables in 2014.*

### ***Auditor’s Remarks***

We appreciate the City’s commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budgeting, Accounting and Reporting System (BARS) Manual - Accounting, Accounting Principles and General Procedures, Internal Control states:*

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.



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

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

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

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

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

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, states in part:

#### Imposed Nonexchange Revenue Transactions

9. Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements.

## Revenue Recognition in Governmental Funds

30. Paragraph 62 of NCGA Statement 1 provides that revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

## STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal 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> 01/01/2013 – 12/31/2013	<b>Report Ref. No.:</b> 1012715	<b>Finding Ref. No.:</b> 1	<b>CFDA Number(s):</b> 14.251
<b>Federal Program Name and Granting Agency:</b> Economic Development Initiative, U.S. Department of Housing and Urban Development		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City does not have adequate internal controls to ensure compliance with reporting requirements.			
<b>Background:</b> <p>The U.S. Department of Housing and Urban Development requires the completion of a performance report every six months after the effective date of the grant agreement. The performance report is made up of two parts: the Federal Financial Report (SF-425) and the narrative of work accomplished during the reporting period. The City did not prepare or submit the narrative of work accomplished for the reporting period of July 1, 2013 through December 31, 2013.</p> <p>Additionally, the City was required to provide a final performance report at the close-out of the project, 30 days after the City had drawn down all funds. The City did not submit the final report to close-out the grant until they were contacted by the grantor and were requested to do so, causing the final performance report to be submitted seven months late.</p>			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The City has implemented updated controls to ensure that all future interim grant reporting is submitted on time. These controls include clear deadlines for report completion in all project schedules and/or status reports and increased coordination between Departments via regular sharing of grant funded project schedules and status reports. Staff is aware that all interim reports need to be submitted in a timely fashion and any outstanding information can be reported in subsequent reports.</i>			

<b>Audit Period:</b> 01/01/2013- 12/31/2013	<b>Report Reference No.:</b> 1012715	<b>Finding Reference No.:</b> 2	<b>CFDA Number(s):</b> 15.608
<b>Federal Program Name and Granting Agency:</b> Fish and Wildlife Management Assistance, U.S. Department of the Interior Fish and Wildlife Service		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City does not have adequate internal controls to ensure compliance with reporting requirements.			
<b>Background:</b> The Fish and Wildlife Management Assistance grant requires the completion of quarterly interim progress reports and annual interim financial reports (SF-425). The City did not prepare or submit the interim reports for Quarter 3 and 4, 2013. In addition, the City did not prepare or submit the Annual 2013 Interim Financial Report.			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The City has implemented updated controls to ensure that all future interim grant reporting is submitted on time. These controls include increased coordination between Departments and clear deadlines for report completion. Staff is aware that all interim reports need to be submitted in a timely fashion and outstanding information can be reported in subsequent reports.</i>			

<b>Audit Period:</b> 01/01/2013- 12/31/2013	<b>Report Reference No.:</b> 1012715	<b>Finding Reference No.:</b> 3	<b>CFDA Number(s):</b> 15.608
<b>Federal Program Name and Granting Agency:</b> Fish and Wildlife Management Assistance, U.S. Department of the Interior Fish and Wildlife Service		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The City did not have adequate internal controls to ensure compliance with federal procurement requirements.			
<b>Background:</b> The City advertised a request for proposal (RFP) for engineering services in compliance with procurement requirements for professional services. However, this engineering contract was terminated by the City as the contractor was unable to fulfill project requirements. Subsequently, the scope of the project was revised and a new RFP was issued. This engineering contract was also terminated.			

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

**Status of Corrective Action: (check one)**

☒ Fully Corrected

☐ Partially Corrected

☐ No Corrective Action Taken

☐ Finding is considered no longer valid

**Corrective Action Taken:**

*The City has implemented a consultant selection and procurement procedure developed during routine meetings with key engineering staff involved in the consultant procurement. The procedures were agreed to verbally and are regularly communicated to staff at biweekly internal staff meetings. The agreed procedure dictates that the City will first consider formally advertising for a written Request for Proposals/Qualifications (RFP/Q process). If, after review of the specific project under consideration, it is determined that the resulting contract is likely to be valued at less than \$300,000 and is not subject to federal procurement procedures that differ from those of the WA State Department of Transportation, the City may consider utilizing the Small Works Roster process (RCW 39.04.155). Upcoming projects are discussed at regular staff meetings and the appropriate procurement process is determined on a project by project basis.*

*The RFP/Q process involves the City advertising in the City's selected newspaper, posting the request on the City's website and using email notifications to distribute the request as widely as possible. The City responds to all requests for inclusion in this process. After the proposals are received, they are reviewed by an internal City selection panel using the criteria indicated within the RFP/Q to determine the most qualified participants and typically, an interview is scheduled with one or more participants. There is a list of interview questions and a scoring sheet used by the panelists to assist in the selection process. After the interview, the panel deliberates and then selects the most qualified firm for the particular professional services.*

*The Small Works Roster process includes selecting an appropriate roster from the MRSC shared roster listing, of qualified consultants and contacting them to determine their availability and level of interest. Once the City has contacted at five of the firms on the roster (usually more and sometimes all of them), the firms are invited to either submit a proposal or sit for an interview. If proposals are received, they are reviewed by a panel to determine the most qualified firm(s). The process continues as described in the RFP/Q process, above.*

**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, 2014 through December 31, 2014**

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2015.

**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.

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

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 to be material weaknesses.

## 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*.

## CITY'S RESPONSE TO FINDINGS

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

## 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 23, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**City of Gig Harbor  
Pierce County  
January 1, 2014 through December 31, 2014**

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

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

We have audited the compliance of the City of Gig Harbor, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

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

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 23, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Gig Harbor Pierce County January 1, 2014 through December 31, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 24.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gig Harbor, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, 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.

## **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 25 through 35 and information on postemployment benefits other than pensions on page 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. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

September 23, 2015

## **FINANCIAL SECTION**

**City of Gig Harbor  
Pierce County  
January 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2014

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Operating Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2014

Statement of Cash Flows – Proprietary Funds – 2014

Notes to Financial Statements – 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Information on Postemployment Benefits Other Than Pensions – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

Parity Bond Debt Service Coverage – 2014



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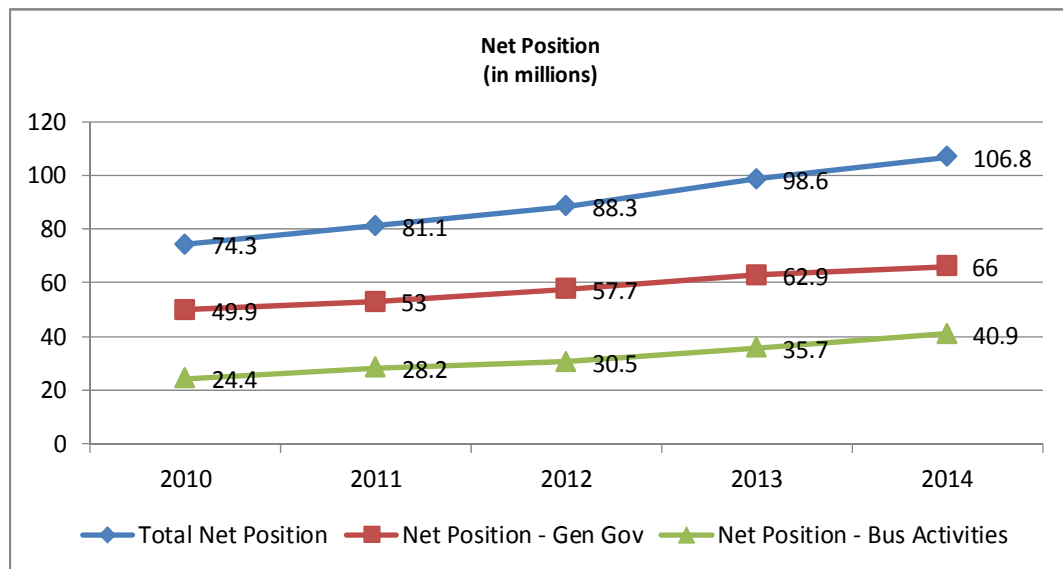
City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2014

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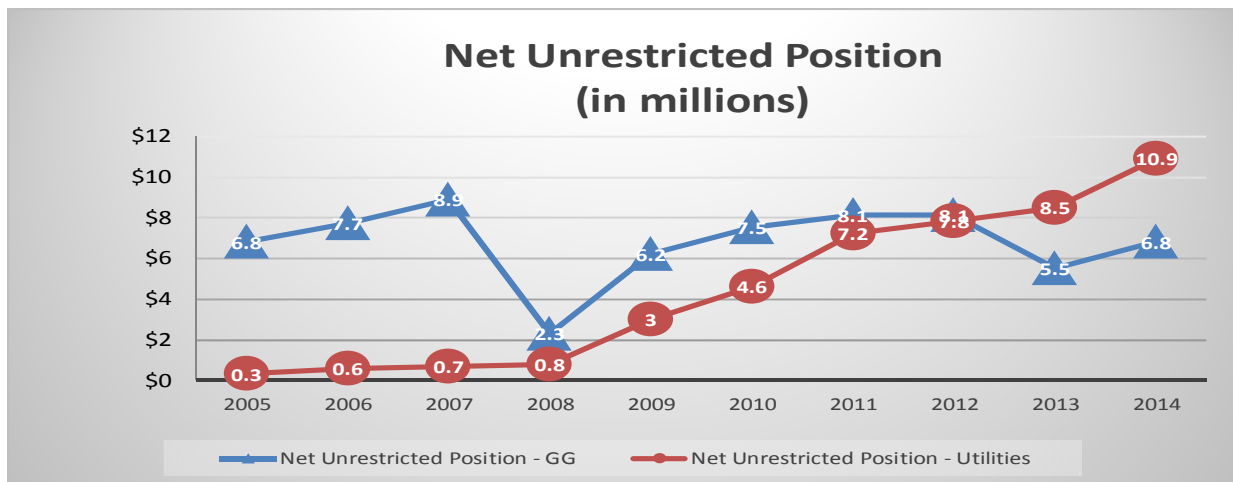
This discussion and analysis provides an overview of the City of Gig Harbor's annual financial report for the fiscal year ended December 31, 2014. The city's financial performance is discussed and analyzed within the context of the accompanying financial statements.

**Financial Highlights**

- The city's total net position including all funds is \$106.8 million. This is an \$8.2 million or 8.3 percent increase over the prior year and compares with \$10.3, \$7.2, \$6.8 and \$7.6 million increases in 2013 through 2010 respectively.



- Net unrestricted position increased from \$13.8 million in 2013 to \$17.7 million in 2014.



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Net investment in capital assets increased from to \$78.6 million to \$82.3 million.

- Net capital assets increased from \$110.3 million to \$113.7 million.
- Total tax revenue increased \$122,000 in 2014. This compares with a nearly \$300,000 increase in 2013. Taxes collected include property, retail sales, and business and excise taxes.
- Cash and investments of \$24.2 million are up \$4.0 million over 2013. This is a 20 percent increase over the prior year. Governmental activities account for \$1.7 million of this increase while business-type activities account for the remainder.
- City-wide short-term liabilities (due in 2014, excluding short-term portion of long-term debt) are \$2.4 million. This leaves cash and investments of \$21.8 million available for spending at the city's discretion. Part of the City's cash and investments, \$1.6 million, is restricted for debt service.
- The city has total liabilities of \$33.9 million of which \$31.5 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

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that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the city include general government, police, community development, planning, judicial, street maintenance and community services. The business-type activities of the city include a water/sewer utility and a storm drainage utility.

### **Fund Financial Statements**

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

Governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements are accounted for using the modified accrual basis of accounting, which focuses on near-term inflow and outflow of liquid resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The city maintains 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, Donations 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

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funds financial statements provide separate information for all of the enterprise funds, which are considered to be major funds of the city.

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

**Government-wide Financial Analysis**

At year-end, the city's net position (assets minus liabilities) was \$106.8 million. Governmental activities make up \$65.9 million of this balance while the city's business-type activities (water/sewer and storm) own the remaining balance of \$40.9 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 (\$82.3 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, 2014 the city held \$6.9 million in restricted net position. Most of this is assets that are 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 \$17.7 million in 2014.

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**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and other assets	\$ 14,552,167	\$11,977,323	\$13,326,480	\$10,577,376	\$ 27,878,647	\$22,554,699
Capital assets, net	64,129,357	63,070,611	49,532,412	47,192,286	113,661,769	110,262,897
<b>Total assets</b>	<b>78,681,524</b>	<b>75,047,934</b>	<b>62,858,892</b>	<b>57,769,662</b>	<b>141,540,416</b>	<b>132,817,596</b>
<b>Liabilities</b>						
Other liabilities	1,581,936	1,078,057	799,356	555,628	2,381,292	1,633,685
Long-term liabilities	10,363,506	11,044,961	21,142,713	21,530,031	31,506,219	32,574,992
<b>Total liabilities</b>	<b>11,945,442</b>	<b>12,123,018</b>	<b>21,942,069</b>	<b>22,085,659</b>	<b>33,887,511</b>	<b>34,208,677</b>
<b>Net position</b>						
Net investment in capital assets	53,654,996	52,677,611	28,598,405	25,961,109	82,253,401	78,638,720
Restricted	5,438,262	4,779,773	1,437,860	1,382,939	6,876,122	6,162,712
Unrestricted	6,802,788	5,467,532	10,880,558	8,339,955	17,683,346	13,807,487
<b>Total net position</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>

Governmental operating revenues (general revenues plus program revenues excluding capital grants and contributions) increased \$300,000 from \$14.4 million in 2013 to \$14.7 million in 2014.

Capital grants and contributions were down from \$2.6 million in 2013 to \$2.2 million in 2014. This is nearly a 45 percent decrease and is due to a drop-off in transportation and park impact fee revenue.

General government expenses were up about \$675,000 over 2013. Street maintenance accounted for more than 50 percent of this increase, with general government coming in next at a 28 percent increase.

Total net position for the city's business-type activities (Water/Sewer and Storm) ended the year at \$40.9 million. As was the case in 2013, this is an increase of \$5.2 million over the prior year. The increase in net position for business-type activities was \$2.3 million in 2012 and \$3.8 million in 2011.

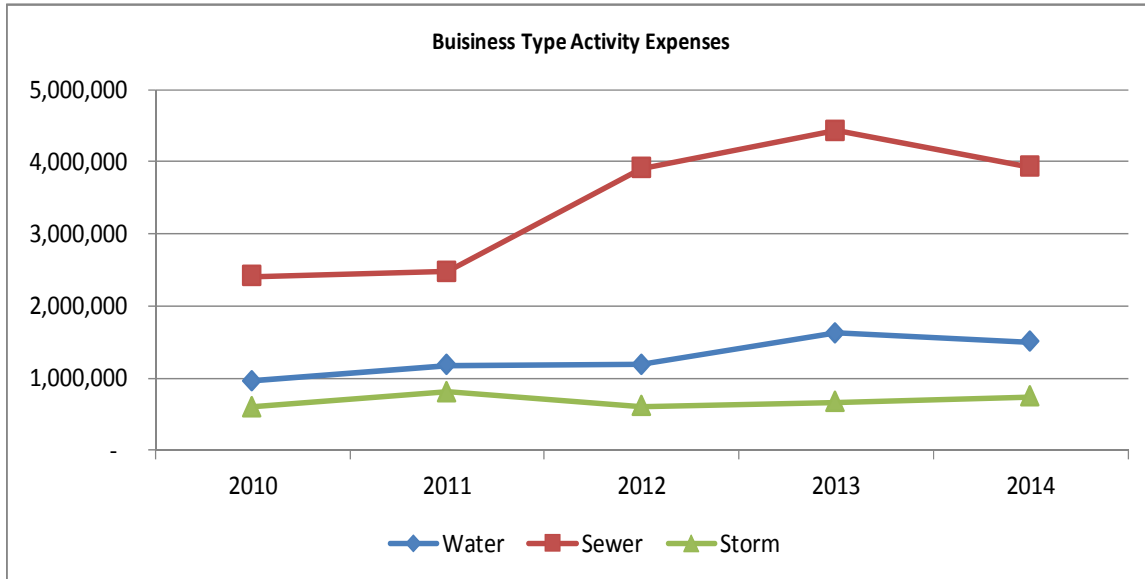
City of Gig Harbor business-type operating revenues were \$6.2 million. This is a \$500,000 increase over 2013 operating revenues of \$5.7 million. The increase is mostly attributable to growth as there were no rate increases in 2014, nor was it a year in which consumption increased dramatically.

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Operating expenses decreased by \$562,000 in 2014. This decrease was not unexpected because 2013 saw a \$300,000 spike in maintenance costs due to a pump failure and a planned storage tank repainting project. Absent the spike in 2013, expenses would have come in about \$250,000 less in 2014 as compared to 2013.



The largest portion of the business-type activities net position (\$28.6 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 \$10.9 million is unrestricted.

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**Table 2**  
**Changes in net position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Program revenues</b>						
Charges for services	\$ 2,363,506	\$ 2,205,817	\$ 6,179,215	\$ 5,705,297	\$ 8,542,721	\$ 7,911,114
Operating grants/contributions	78,685	101,773	329,498	290,215	408,183	391,988
Capital grants/contributions	2,152,649	2,599,481	4,155,855	5,655,168	6,308,504	8,254,649
<b>General revenues</b>						
Sales and use tax	7,802,036	7,564,093	-	-	7,802,036	7,564,093
Property tax	2,474,409	2,557,433	-	-	2,474,409	2,557,433
Other taxes	1,974,570	2,018,086	216,585	205,952	2,191,155	2,224,038
<b>Total revenues</b>	<b>\$16,845,855</b>	<b>\$17,046,683</b>	<b>\$10,881,153</b>	<b>\$11,856,632</b>	<b>\$ 27,727,008</b>	<b>\$28,903,315</b>
<b>Program expenses</b>						
General government	2,638,458	2,447,055	-	-	2,638,458	2,447,055
Judicial	393,373	354,713	-	-	393,373	354,713
Public safety	2,913,239	2,917,248	-	-	2,913,239	2,917,248
Physical Environment/Utilities	5,642	136,096	6,154,928	6,717,039	6,160,570	6,853,135
Transportation	3,190,585	2,824,120	-	-	3,190,585	2,824,120
Economic Environment	1,676,012	1,519,644	-	-	1,676,012	1,519,644
Mental & Physical Health	-	1,422	-	-	-	1,422
Culture & Recreation	1,125,825	998,461	-	-	1,125,825	998,461
Interest on long-term debt	454,212	521,837	-	-	454,212	521,837
<b>Total Expenses</b>	<b>12,397,346</b>	<b>11,720,596</b>	<b>6,154,928</b>	<b>6,717,039</b>	<b>18,552,274</b>	<b>18,437,635</b>
<b>Increase in net position</b>	<b>\$ 4,448,509</b>	<b>\$ 5,326,087</b>	<b>\$ 4,726,225</b>	<b>\$ 5,139,593</b>	<b>\$ 9,174,734</b>	<b>\$10,465,680</b>
<b>Net position, January 1, 2014</b>	<b>62,924,916</b>	<b>57,728,215</b>	<b>35,684,003</b>	<b>30,544,410</b>	<b>98,608,919</b>	<b>88,272,625</b>
Prior period adjustment	(1,477,379)	(129,386)	506,595	-	(970,784)	(129,386)
<b>Net position, December 31, 2014</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>

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

At the end of 2014, the city's governmental funds had a combined ending fund balance of \$12.2 million. This is a \$1.3 million increase from the \$10.9 million ending fund balance reported in 2013.

The increase in ending fund balance is related to a decrease in capital outlays in 2014 for the governmental funds.

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City of Gig Harbor  
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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 \$12.2 million. About 42 percent (\$5.1 million) of the total ending governmental fund balances are reported in the General fund. Of the remaining major funds, the largest portion of ending fund balance (\$2.6 million) is reported in the HBZ Revenue fund. The balance in this fund is restricted for capital improvements within the Hospital Benefit Zone. Ending fund balance for Other Governmental funds (an aggregation of the city's non-major funds) is \$2.6 million. The bulk of this balance is restricted for capital projects, debt service and economic development.

General fund revenues decreased \$225,000 or 2.0 percent in 2014. This is misleading, though, because the Street Operating fund was reported within the General fund for 2013. This had the effect of increasing General Fund revenues by \$415,000 in 2013. If this is removed from 2013 revenues, General fund revenues actually increased \$190,000 or 1.7 percent.

Taxes were up less than one percent over 2013, while permits were up 19 percent, intergovernmental revenues were flat and charges for services were down 26 percent.

General Fund expenditures increased \$600,000 in 2014 to \$8.1 million, as compared with \$7.5 million for 2013 (after Street Operating fund expenditures removed). The increase is attributed to the functional areas listed below:

	2013	2014	Increase / (Decrease)
Judicial	\$ 354,713	\$ 393,373	\$ 38,660
General government	2,142,405	2,342,199	199,794
Security of persons and property	2,868,620	2,867,519	(1,101)
Economic environment	1,291,475	1,441,621	150,146
Mental and physical health	1,422	1,629	207
Culture and recreation	747,741	859,380	111,639
Capital outlay	98,356	206,142	107,786
	<u>\$7,504,732</u>	<u>\$8,111,863</u>	<u>\$ 607,131</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



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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.

### **BUDGETARY HIGHLIGHTS**

**General 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 significant budgetary changes in the General Fund include:

- The final General Fund revenue budget increased by 6.6%, or \$110,000 of the original adopted budget. This was to allow the city to potentially hire an economic development position. The year ended without the position being filled. Funding for this position was provided from ending fund balance.
- There were no further changes to the General Fund budget, nor were there any significant variations.

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 2014.

**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 \$40.9 million at year-end. Of this amount, \$12.3 million is liquid and available to meet future obligations; with about \$1.4 million of this amount being restricted for revenue bond debt service.

Water and sewer monthly (billed bi-monthly) revenues increased nine and four percent respectively to \$1.5 and \$3.8 million. General facilities charges (connection fees) for water and sewer were \$1.2 and \$1.7 million respectively. Storm sewer revenues for monthly service and system connections were \$773,000 and \$277,000 respectively.

Water & sewer operating expenses are down \$416,000 from 2013. In real terms, this decrease is more like \$250,000 due to a 2013 increase in maintenance due to several large projects.

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City of Gig Harbor  
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## 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, 2014 totals \$83.1 million. This is an increase of \$4.5 million over 2013. The city's governmental activities own \$54.5 million of this total and the Water-Sewer-Storm system owns \$28.6 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.

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, 2014; 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.

At fiscal year-end the city had \$30,606,957 in total bonded debt outstanding, including premiums of \$110,175 on bonds payable. This total does not include \$687,140 and \$212,119 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.

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**City of Gig Harbor  
Management Discussion and Analysis  
December 31, 2014**

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	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
LTGO bonds	\$7,330,000	\$ 8,035,000	\$ -	\$ -	\$ 7,330,000	\$ 8,035,000
UTGO bonds	2,181,000	2,358,000	-	-	2,181,000	2,358,000
Water/Sewer Revenue bonds	-	-	12,690,000	13,290,000	12,690,000	13,290,000
PWTF	-	-	8,061,556	7,941,176	8,061,556	7,941,176
Certificates of Participation	152,167	-	82,060	-	234,227	-
<b>Total</b>	<b>\$9,663,167</b>	<b>\$10,393,000</b>	<b>\$20,833,616</b>	<b>\$21,231,176</b>	<b>\$30,496,783</b>	<b>\$31,624,176</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, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$10,898,278	\$ 11,318,305	\$ 22,216,583
Investments	1,000,000	999,306	1,999,306
Receivables			
Taxes	1,337,596	-	1,337,596
Accounts and contracts	1,316,293	1,008,869	2,325,162
Capital assets not being depreciated			
Land	15,515,610	542,233	16,057,843
Construction in progress	3,434,676	5,185,615	8,620,291
Capital assets net of accumulated depreciation:			
Buildings	8,903,239	19,202,906	28,106,145
Improvements other than buildings	8,860,160	11,581,705	20,441,865
Machinery and equipment	292,451	472,605	765,056
Infrastructure	27,123,221	12,547,348	39,670,569
<b>Total assets</b>	<b>78,681,524</b>	<b>62,858,892</b>	<b>141,540,416</b>
<b>Liabilities</b>			
Accounts payable	1,525,683	610,684	2,136,367
Retainage payable	3,615	2,881	6,496
Bond interest payable	33,936	184,979	218,915
Contract payable	-	12	12
Deposits payable	18,702	800	19,502
Noncurrent liabilities:			
Due within one year	936,468	1,159,224	2,095,692
Due in more than one year	9,427,038	19,983,489	29,410,527
<b>Total liabilities</b>	<b>11,945,442</b>	<b>21,942,069</b>	<b>33,887,511</b>
<b>Deferred inflows of resources</b>			
Property taxes	38,628	-	38,628
Grant reimbursements	801,408	-	801,408
<b>Total deferred inflows of resources</b>	<b>840,036</b>	<b>-</b>	<b>840,036</b>
<b>Net position</b>			
Net investment in capital assets	53,654,996	28,598,405	82,253,401
Restricted for:			
Capital acquisition	5,278,176	-	5,278,176
Debt service	160,086	1,437,860	1,597,946
Unrestricted	6,802,788	10,880,558	17,683,346
<b>Total net position</b>	<b>\$65,896,046</b>	<b>\$ 40,916,823</b>	<b>\$ 106,812,869</b>

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

**City of Gig Harbor  
Statement of Activities  
Year Ended December 31, 2014**

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
<b>Governmental activities:</b>					
General government	\$ 2,638,458	\$ 453,875	\$ -	\$ -	\$ (2,184,583)
Judicial	393,373	199,073	-	-	(194,300)
Public safety	2,913,239	52,328	13,735	-	(2,847,176)
Physical environment/utilities	5,642	5,554	-	-	(88)
Transportation	3,190,585	267,120	-	454,134	(2,469,331)
Economic environment	1,676,012	1,384,787	28,000	-	(263,225)
Culture & recreation	1,125,825	542	36,950	1,698,515	610,182
Interest on long-term debt	454,212	227	-	-	(453,985)
Total governmental activities	12,397,346	2,363,506	78,685	2,152,649	(7,802,506)
<b>Business-type activities:</b>					
Water	1,494,910	1,472,972	-	2,227,249	2,205,311
Sewer	3,923,107	3,928,148	196,546	1,651,726	1,853,313
Storm water	736,911	778,095	132,952	276,880	451,016
Total business-type activities	6,154,928	6,179,215	329,498	4,155,855	4,509,640
Total government	\$ 18,552,274	\$ 8,542,721	\$ 408,183	\$ 6,308,504	\$ (3,292,866)
<b>General revenues:</b>					
Taxes:					
Property taxes					\$ 2,474,409
Retail sales taxes					7,802,036
Business taxes					1,342,964
Excise & other taxes					631,606
Total general revenues					12,251,015
Change in net position					4,448,509
Net position - beginning					62,924,916
Prior period adjustment					(1,477,379)
Net position - ending					\$ 65,896,046

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

**City of Gig Harbor  
Governmental Funds  
Balance Sheet  
December 31, 2014**

	General	Street Operating	Park Development	HBZ Revenue	Other Governmental	Governmental Fund Total
<b>Assets</b>						
Cash and cash equivalents	\$ 3,015,178	\$ 431,182	\$ 2,155,683	\$2,604,175	\$ 2,692,059	\$ 10,898,277
Investments	1,000,000	-	-	-	-	1,000,000
Accounts receivable						
Taxes	1,291,949	-	-	-	45,647	1,337,596
Accounts and contracts	65,251	4,086	1,225,053	-	21,903	1,316,293
<b>Total assets</b>	<b>5,372,378</b>	<b>435,268</b>	<b>3,380,736</b>	<b>2,604,175</b>	<b>2,759,609</b>	<b>14,552,166</b>
<b>Liabilities and fund balance</b>						
Liabilities:						
Accounts payable	186,619	166,583	982,173	-	201,544	1,536,919
Deposits	9,863	-	-	-	-	9,863
<b>Total liabilities</b>	<b>196,482</b>	<b>166,583</b>	<b>982,173</b>	<b>-</b>	<b>201,544</b>	<b>1,546,782</b>
Deferred inflows of resources						
Property taxes	34,770	-	-	-	3,858	38,628
Grant reimbursements	-	-	801,408	-	-	801,408
<b>Total deferred inflows of resources</b>	<b>34,770</b>	<b>-</b>	<b>801,408</b>	<b>-</b>	<b>3,858</b>	<b>840,036</b>
Fund balances:						
Restricted for:						
Debt service	-	-	-	-	178,730	178,730
Capital projects	-	-	-	2,604,175	1,433,489	4,037,664
Economic development	-	-	-	-	252,771	252,771
Public safety	-	-	-	-	27,979	27,979
Assigned to:						
Debt service	1,302,977	-	-	-	-	1,302,977
Parks	-	-	1,597,155	-	-	1,597,155
Streets	-	268,685	-	-	661,238	929,923
Other purposes	807,050	-	-	-	-	807,050
Unassigned	3,031,099	-	-	-	-	3,031,099
<b>Total fund balances</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>
<b>Total liabilities and fund balance</b>	<b>\$ 5,337,608</b>	<b>\$ 435,268</b>	<b>\$ 2,579,328</b>	<b>\$2,604,175</b>	<b>\$ 2,755,751</b>	<b>\$ 13,712,130</b>

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

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**Reconciliation of the Balance Sheet  
To the Statement of Net Position  
Governmental Funds  
December 31, 2014**

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Total fund balance of governmental funds: \$ 12,165,348

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	\$ 15,515,610	
Buildings and structures	11,978,223	
Infrastructure	31,587,770	
Improvements	14,939,530	
Machinery and equipment	2,663,567	
Construction in progress	3,434,676	

Less: accumulated depreciation	\$ (15,990,018)	64,129,358
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Long term bond interest payable is not reported in governmental funds (33,936)

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. (10,364,725)

Net position of governmental activities	\$	<u>65,896,046</u>
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The accompanying notes are an integral part of this financial statement.

**City of Gig Harbor**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended December 31, 2014**

	General	Street Operating	Park Development	Hospital Benefit Zone Revenue	Other Governmental	Total
<b>Revenues</b>						
Taxes	\$ 9,074,363	\$ -	\$ -	\$ 2,082,374	\$ 1,079,866	\$ 12,236,603
Licenses and permits	1,373,902	20,330	-	-	-	1,394,232
Intergovernmental revenues	156,622	158,205	1,536,415	-	192,524	2,043,766
Charges for services	253,953	169,701	-	-	428,110	851,764
Fines and forfeits	126,154	-	-	-	150	126,304
Miscellaneous	100,039	16,323	541	3,114	62,606	182,623
<b>Total revenues</b>	<b>11,085,033</b>	<b>364,559</b>	<b>1,536,956</b>	<b>2,085,488</b>	<b>1,763,256</b>	<b>16,835,292</b>
<b>Expenditures</b>						
Current:						
Judicial	393,373	-	-	-	-	393,373
General government	2,342,199	-	-	-	-	2,342,199
Security of persons and property	2,867,519	-	-	-	1,758	2,869,277
Physical environment	5,642	-	-	-	-	5,642
Transportation	-	1,926,635	-	-	-	1,926,635
Economic environment	1,441,621	-	-	-	234,391	1,676,012
Mental and physical health	1,629	-	-	-	-	1,629
Culture and recreation	859,380	-	-	-	-	859,380
Debt service:						
Principal	-	-	-	-	882,000	882,000
Interest and other debt service costs	-	-	-	-	420,276	420,276
Capital outlay	206,142	-	3,007,905	86,085	1,100,744	4,400,876
<b>Total expenditures</b>	<b>8,117,505</b>	<b>1,926,635</b>	<b>3,007,905</b>	<b>86,085</b>	<b>2,639,169</b>	<b>15,777,299</b>
Excess of revenues over (under) expenditures	2,967,528	(1,562,076)	(1,470,949)	1,999,403	(875,913)	1,057,993
<b>Other financing sources (uses)</b>						
Capital asset disposal	10,561	-	-	-	-	10,561
Bond Proceeds	-	-	-	-	152,167	152,167
Original issuance premium	-	-	-	-	9,786	9,786
Transfers in	360,509	1,546,000	2,920,250	-	2,302,582	7,129,341
Transfers out	(3,492,406)	-	-	(2,257,032)	(1,379,903)	(7,129,341)
<b>Total other financing sources and Uses</b>	<b>(3,121,336)</b>	<b>1,546,000</b>	<b>2,920,250</b>	<b>(2,257,032)</b>	<b>1,084,632</b>	<b>172,514</b>
<b>Net change in fund balance</b>	<b>(153,808)</b>	<b>(16,076)</b>	<b>1,449,301</b>	<b>(257,629)</b>	<b>208,719</b>	<b>1,230,507</b>
<b>Fund balance at beginning of year</b>	<b>5,294,934</b>	<b>284,761</b>	<b>147,854</b>	<b>2,861,804</b>	<b>2,345,488</b>	<b>10,934,841</b>
<b>Fund balance at end 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>

The accompanying notes are an integral part of this financial 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**

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Net change in fund balance - total governmental funds \$ 1,230,507

*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	4,292,533		
Less current year depreciation	(1,809,021)		2,483,512

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	(33,936)		
Long-term debt proceeds	(152,167)		
Principal payments	882,000		695,897

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.

	38,593		38,593

Change in net position of governmental activities			\$ 4,448,509

The accompanying notes are an integral part of this financial 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, 2014

	Budget		Actual Amounts	Variance
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 8,969,315	\$ 8,969,315	\$ 9,074,363	\$ 105,048
Licenses and permits	937,330	937,330	1,373,902	436,572
Intergovernmental revenues	127,277	127,277	156,622	29,345
Charges for services	247,103	247,103	253,953	6,850
Fines and forfeits	135,642	135,642	126,154	(9,488)
Miscellaneous	141,508	141,508	100,039	(41,469)
<b>Total revenues</b>	<b>10,558,175</b>	<b>10,558,175</b>	<b>11,085,033</b>	<b>526,858</b>
<b>Expenditures</b>				
Current:				
Judicial	402,900	402,900	393,373	9,527
General government	2,563,956	2,563,956	2,342,199	221,757
Security of persons and property	3,088,684	3,088,684	2,867,519	221,165
Physical environment	6,200	6,200	5,642	558
Transportation	-	-	-	-
Economic environment	1,522,075	1,522,075	1,441,621	80,454
Mental and physical health	700	700	1,629	(929)
Culture and recreation	841,400	841,400	859,380	(17,980)
Capital outlay	183,625	183,625	206,142	(22,517)
<b>Total expenditures</b>	<b>8,609,540</b>	<b>8,609,540</b>	<b>8,117,505</b>	<b>492,035</b>
Excess of revenues over (under) expenditures	1,948,635	1,948,635	2,967,528	1,018,893
<b>Other financing sources (uses)</b>				
Capital asset disposal	-	-	10,561	(10,561)
Transfers in	355,750	355,750	360,509	(4,759)
Transfers out	(3,492,650)	(3,492,650)	(3,492,406)	244
Total other financing sources (uses)	(3,136,900)	(3,136,900)	(3,121,336)	15,564
<b>Net change in fund balance</b>	<b>(1,188,265)</b>	<b>(1,188,265)</b>	<b>(153,808)</b>	<b>1,034,457</b>
<b>Fund balance - beginning</b>	<b>4,524,256</b>	<b>4,524,256</b>	<b>5,294,934</b>	<b>770,678</b>
<b>Fund balance - ending</b>	<b>\$ 3,335,991</b>	<b>\$ 3,335,991</b>	<b>\$ 5,141,126</b>	<b>\$ 1,805,135</b>

The accompanying notes are an integral part of this financial 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, 2014

	Budget		Actual	
	Original Budget	Final Budget	Amounts	Variance
<b>Revenues</b>				
Licenses and permits	\$ 15,000	\$ 15,000	\$ 20,330	\$ 5,330
Intergovernmental revenues	156,468	156,468	158,205	1,737
Charges for Service	85,000	85,000	169,701	84,701
Miscellaneous	20,200	20,200	16,323	(3,877)
<b>Total revenues</b>	<b>276,668</b>	<b>276,668</b>	<b>364,559</b>	<b>87,891</b>
<b>Expenditures</b>				
Current:				
Transportation	2,127,871	2,127,871	1,926,635	201,236
Capital outlay	28,500	28,500	-	28,500
<b>Total expenditures</b>	<b>2,156,371</b>	<b>2,156,371</b>	<b>1,926,635</b>	<b>229,736</b>
Excess of revenues over (under) expenditures	<b>(1,879,703)</b>	<b>(1,879,703)</b>	<b>(1,562,076)</b>	<b>317,627</b>
<b>Other financing sources (uses)</b>				
Transfers in	1,546,000	1,546,000	1,546,000	-
<b>Total other financing sources (uses)</b>	<b>1,546,000</b>	<b>1,546,000</b>	<b>1,546,000</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(333,703)</b>	<b>(333,703)</b>	<b>(16,076)</b>	<b>317,627</b>
<b>Fund balances - beginning</b>	<b>351,936</b>	<b>351,936</b>	<b>284,761</b>	<b>(67,175)</b>
<b>Fund balances - ending</b>	<b>\$ 18,233</b>	<b>\$ 18,233</b>	<b>\$ 268,685</b>	<b>\$ 250,452</b>

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

City of Gig Harbor  
Statement of Net Position  
Proprietary Funds  
December 31, 2014

	Water-Sewer Utility	Storm Sewer Operating	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 10,036,998	\$ 897,581	\$ 10,934,579
Accounts and contracts	749,189	204,852	954,041
Total current assets	<u>10,786,187</u>	<u>1,102,433</u>	<u>11,888,620</u>
Noncurrent assets:			
Restricted cash and investments:			
Cash and cash equivalents	383,726	-	383,726
Investments	999,306	-	999,306
Receivables	54,828	-	54,828
Land	542,233	-	542,233
Buildings	26,701,714	-	26,701,714
Improvements other than buildings	26,865,999	3,668,190	30,534,189
Machinery and equipment	1,591,949	427,887	2,019,836
Construction in progress	4,905,772	279,843	5,185,615
Less accumulated depreciation	<u>(14,029,451)</u>	<u>(1,421,725)</u>	<u>(15,451,176)</u>
Capital assets, net of accumulated depreciation	<u>46,578,216</u>	<u>2,954,195</u>	<u>49,532,411</u>
Total noncurrent assets	<u>48,016,076</u>	<u>2,954,195</u>	<u>50,970,271</u>
<b>Total assets</b>	<b><u>58,802,263</u></b>	<b><u>4,056,628</u></b>	<b><u>62,858,891</u></b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	546,660	64,024	610,684
Matured revenue bonds payable	1,156,850	2,374	1,159,224
Revenue bond interest payable	184,979	-	184,979
Other payables	2,250	1,443	3,693
Total current liabilities	<u>1,890,739</u>	<u>67,841</u>	<u>1,958,580</u>
Noncurrent Liabilities:			
Compensated absences payable	160,623	48,083	208,706
Revenue bonds payable (net of unamortized premium)	19,763,158	11,624	19,774,782
Total noncurrent liabilities	<u>19,923,781</u>	<u>59,707</u>	<u>19,983,488</u>
<b>Total liabilities</b>	<b><u>21,814,520</u></b>	<b><u>127,548</u></b>	<b><u>21,942,068</u></b>
<b>Net position</b>			
Net investment in capital assets	25,658,208	2,940,197	28,598,405
Restricted for debt service	1,437,860	-	1,437,860
Restricted for capital acquisition	-	-	-
Unrestricted	9,891,675	988,883	10,880,558
<b>Total net position</b>	<b><u>\$ 36,987,743</u></b>	<b><u>\$ 3,929,080</u></b>	<b><u>\$ 40,916,823</u></b>

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

**CITY OF GIG HARBOR**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2014**

	<u>Water-Sewer Utility</u>	<u>Storm Sewer Operating</u>	<u>Total</u>
<b>Operating revenues:</b>			
Water sales	\$ 1,467,347	\$ -	\$ 1,467,347
Sewer charges	3,781,361	-	3,781,361
Storm sewer charges	-	772,904	772,904
Other fees and charges	2,838,241	276,880	3,115,121
Miscellaneous	223,355	15,984	239,339
<b>Total operating revenues</b>	<u>8,310,304</u>	<u>1,065,768</u>	<u>9,376,072</u>
<b>Operating expenses:</b>			
Operations and maintenance	2,175,175	246,436	2,421,611
Administration	1,070,662	311,794	1,382,456
Depreciation	1,319,242	164,843	1,484,085
Utility taxes	169,133	15,558	184,691
<b>Total operating expenses</b>	<u>4,734,212</u>	<u>738,631</u>	<u>5,472,843</u>
<b>Operating income (loss)</b>	3,576,092	327,137	3,903,229
<b>Nonoperating revenues (expenses):</b>			
Intergovernmental revenue	1,325,365	132,952	1,458,317
Investment earnings	48,120	646	48,766
Interest expense	(682,579)	(282)	(682,861)
Other debt service expense	(1,225)	-	(1,225)
Miscellaneous non-operating revenues	-	-	-
Gain on sale of capital assets	-	-	-
<b>Total nonoperating revenues (expenses)</b>	<u>689,681</u>	<u>133,316</u>	<u>822,997</u>
<b>Changes in net position</b>	4,265,773	460,453	4,726,226
<b>Total net position-beginning</b>	<u>32,229,732</u>	<u>3,454,270</u>	<u>35,684,002</u>
<b>Prior period adjustment</b>	492,238	14,357	506,595
<b>Total net position-ending</b>	<u>\$ 36,987,743</u>	<u>\$ 3,929,080</u>	<u>\$ 40,916,823</u>

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

**CITY OF GIG HARBOR**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2014**

	Total Water/Sewer Utility	Storm Sewer	Total Enterprise Fund
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 5,256,782	\$ 756,805	\$ 6,013,587
Payments to suppliers	(1,117,849)	-	(1,117,849)
Payments to employees	(1,949,113)	(616,821)	(2,565,934)
Other receipts (payments)	3,061,596	292,864	3,354,460
Net cash provided (used) by operating activities	5,251,416	432,848	5,684,264
<b>Cash Flows from Non-capital Financing Activities</b>			
Subsidy from federal grant	196,546	132,952	329,498
Net cash provided (used) by non-capital financing activities	196,546	132,952	329,498
<b>Cash Flows from Capital and Related Financing Activities</b>			
Capital grants	1,040,734	-	1,040,734
Acquisition and construction of capital assets	(3,068,369)	(275,502)	(3,343,871)
Proceeds from issuance of capital debt	73,339	13,998	87,337
Principle paid on revenue bond maturities	(413,075)	-	(413,075)
Interest paid on revenue bonds	(715,487)	282	(715,205)
Net cash provided (used) by capital and related financing activities	(3,082,858)	(261,222)	(3,344,080)
<b>Cash Flows from Investing Activities</b>			
Interest received from investments	(6,708)	646	(6,062)
Net cash provided by investing activities	(6,708)	646	(6,062)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,358,396</b>	<b>305,224</b>	<b>2,663,620</b>
<b>Cash and cash equivalents, beginning</b>	<b>8,062,329</b>	<b>592,357</b>	<b>8,654,686</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 10,420,725</b>	<b>\$ 897,581</b>	<b>\$ 11,318,306</b>
<b>Reconciliation of Operating Income to Net Cash</b>			
Provided (Used) by Operating Activities:			
Operating income (loss)	3,576,092	327,137	3,903,229
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,319,242	164,843	1,484,085
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	364,156	(75,231)	288,925
(Increase) decrease in accounts receivable	(8,074)	16,099	8,025
Total adjustments	356,082	(59,132)	296,950
<b>Net cash provided by operating activities</b>	<b>\$ 5,251,416</b>	<b>\$ 432,848</b>	<b>\$ 5,684,264</b>

The city did not participate in any non-cash investing, capital, or financing activities in 2014.

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

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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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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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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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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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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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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CITY OF GIG HARBOR  
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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 extent that those standards do not conflict with or contradict guidance of the Governmental

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**CITY OF GIG HARBOR**  
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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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**CITY OF GIG HARBOR**  
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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 2014 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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**CITY OF GIG HARBOR**  
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It is the city's policy to invest all temporary cash surpluses.

At December 31, 2014, the treasurer was holding \$22,216,583 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, 2014, 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, 2014, the restricted assets of the enterprise funds are composed of the following:

Cash & cash equivalents - debt service	\$ 383,726
Investments - debt service	\$ 999,306
Interest receivable	\$ 54,828

**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.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense for 2014 was \$1,103,137. The City did not have any debt-financed capital projects under construction in 2014; therefore all 2014 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.

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

**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.

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**CITY OF GIG HARBOR**  
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**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**

At December 31, 2014, 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	500,554
State Treasurer's Pool (cash equivalents)	<u>21,715,729</u>
<b>Total Cash and Cash Equivalents</b>	<b>\$ 22,216,583</b>

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**CITY OF GIG HARBOR**  
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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, 2014, 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	\$ 21,715,729	\$ 21,715,729	\$ -
Certificate of Deposit	1,000,000	1,000,000	-
Federal National Mortgage Association	999,306	-	999,306
Total Investments	\$ 23,715,035	\$ 22,715,729	\$ 999,306

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, 2013 88 percent of the City's investments were in the LGIP.

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

Investments in the LGIP, which is a 2a7-like unrated pool, are not subject to custodial credit risk because the investments held must be evidenced by securities that exist in physical or book entry form to be exposed to this type of risk. Instead, the investment in the LGIP is treated as a type of



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**CITY OF GIG HARBOR**  
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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 2014 was \$1.2934 per \$1,000 on an assessed valuation of \$1,706,920,083 for a total regular levy of \$2,207,695.

The city's excess levy for payment of the 2005 voted general obligation bonds was \$0.1474 per \$1,000 on an assessed valuation of \$1,695,829,849 for a total levy of \$250,000.

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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**

Year	Regular Levy	Excess Levy	Percent Collected in Year of Levy
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
2009	1,737,590	\$250,000	97.6

**Note 6 – Capital assets**

A. Depreciation for the year ended December 31, 2014 was as follows:

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 256,037
Public Safety	43,962
Transportation	1,268,487
Culture and Recreation	240,535
<b>Total depreciation for governmental activities</b>	<b><u>\$ 1,809,021</u></b>

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

Water	\$ 268,958
Sewer	1,050,284
Stormwater	164,843
<b>Total depreciation for business-type activities</b>	<b><u>\$ 1,484,085</u></b>

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**CITY OF GIG HARBOR**  
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B. Capital asset activity for the year ended December 31, 2014 was as follows:

<b>Governmental Activities</b>	<b>Beginning</b>			<b>Ending</b>
<b>Description</b>	<b>Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance</b>
Land	\$ 14,237,179	\$ 1,350,998	\$ 72,567	\$ 15,515,610
CIP	12,307,077	5,344,240	14,216,641	3,434,676
Total non-depreciable assets	26,544,256	6,695,238	14,289,208	18,950,286
Depreciable assets				
Buildings	10,014,811	2,024,326	60,914	11,978,223
Other Improvements	13,410,244	2,687,301	1,158,015	14,939,530
Machinery & Equipment	2,859,489	115,143	311,065	2,663,567
Infrastructure	23,810,309	7,833,064	55,603	31,587,770
Total depreciable assets	50,094,853	12,659,834	1,585,597	61,169,090
Less accumulated depreciation for:				
Buildings	2,850,293	312,604	87,914	3,074,983
Other Improvements	6,833,421	453,982	1,208,034	6,079,369
Machinery & Equipment	2,476,626	318,372	423,881	2,371,117
Infrastructure	1,408,156	3,056,393	-	4,464,549
Total accumulated depreciation	13,568,496	4,141,351	1,719,829	15,990,018
Total depreciable assets, net	36,526,357	8,518,483	(134,232)	45,179,072
Governmental activities net capital assets	<b>\$ 63,070,613</b>	<b>\$ 15,213,721</b>	<b>\$ 14,154,976</b>	<b>\$ 64,129,358</b>

**CITY OF GIG HARBOR**  
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Business-type activities Description	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 542,233	\$ -	\$ -	\$ 542,233
CIP	2,709,075	3,070,934	594,394	5,185,615
Total non-depreciable assets	3,251,308	3,070,934	594,394	5,727,848
Depreciable assets				
Buildings	26,107,320	594,394	-	26,701,714
Other improvements	4,017,397	9,407,125	-	13,424,522
Machinery & equipment	1,781,567	273,472	35,203	2,019,836
Infrastructure	26,516,793		9,407,125	17,109,668
Total depreciable assets	58,423,077	10,274,991	9,442,328	59,255,740
Less accumulated depreciation for:				
Buildings	7,430,167	601,002	532,361	7,498,808
Other improvements	1,435,683	585,687	178,553	1,842,817
Machinery & equipment	1,497,594	204,202	154,565	1,547,231
Infrastructure	4,118,653	721,776	278,109	4,562,320
Total accumulated depreciation	14,482,097	2,112,667	1,143,588	15,451,176
Total depreciable assets, net	43,940,980	8,162,324	8,298,740	43,804,564
Business-type activities net capital assets	\$ 47,192,288	\$ 11,233,258	\$ 8,893,134	\$ 49,532,412

C. The city has the following active construction project as of December 31, 2014.

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Cushman Trail Ph. 3	\$2,824,000	\$1,500,000
Wastewater Plant Ph 2 upgrades	\$2,537,804	\$6,286,000

**Note 7 – Pension Plans**

Substantially all city full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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**CITY OF GIG HARBOR**  
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**Public Employees' Retirement System (PERS) Plans 1, 2 and 3**

**Plan Description**

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

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

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

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

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

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

PERS Plan 2 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	85,328
Terminated plan members entitled to but not yet receiving benefits	31,047
Active plan members vested	150,706
Terminated plan members not vested	101,191
<b>Total</b>	<b>368,272</b>

**Funding Policy**

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

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

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

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 2	PERS Plan 3
2014	\$411,141	\$81,808
2013	337,930	79,890
2012	\$259,578	\$70,469



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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

**Plan Description**

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<b>Term of Service</b>	<b>Percent of Final Average Salary</b>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
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LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. 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 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	10,511
Terminated plan members entitled to but not yet receiving benefits	699
Active plan members vested	16,830
Active plan members not vested	1,600
<b>Total</b>	<b>29,640</b>

#### **Funding Policy**

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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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 DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

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

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

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

\*The employer rates include the employer administrative expense fee currently set at 0.18%. Both the city and the employees made the required contributions. The city's required contributions for the years ending December 31 were as follows:

	LEOFF Plan 2
2014	\$74,989
2013	72,842
2012	\$72,789

#### **City of Gig Harbor Retirement Plan**

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

As of December 31, 2014 there were a total of 136 individuals covered by this system; 92 of whom are currently employed by the city.

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

Covered payroll for 2014 was \$5,788,201 and total city payroll was \$6,653,575. Actual city contributions during 2014 were \$358,810, which represents 100% of its current year obligation. Employee contributions during 2014 were \$400,612. Employees choose from a variety of investment funds offered and administered by ICMA Retirement Corporation. Plan assets amounted to \$13,777,699 at December 31, 2014.

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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**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, 2014, 94 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverage's are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property 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 2014, AWC RMSA carried a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

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

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

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
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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: 2012, 2013 and 2014.

**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 (currently and in prior years) 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 balance of the notes is a general obligation of the city; however, the debt service on the 2014 note 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, 2014, the city has \$176,406 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,383,032 in debt service funds and reserves as required by bond indentures.

The City had no arbitrage rebate liability for outstanding tax exempt bonds in 2014.

**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
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The City's long term debt outstanding is as follows:

	2014 Beginning Balance	Increase	Decrease	2014 Ending Balance	Due in 2015
<b>Governmental Activities</b>					
Other Post Employment Benefits	\$ 193,287	\$ 18,832	\$ -	\$ 212,119	\$ -
Compensated absences	458,673	19,761	-	478,434	-
<b>Other non-current obligations</b>	<b>\$ 651,960</b>	<b>\$ 38,593</b>	<b>\$ -</b>	<b>\$ 690,553</b>	<b>\$ -</b>
General obligation bonds					
2005 UTGO	2,358,000	-	177,000	2,181,000	184,000
2008 LTGO	1,315,000	-	245,000	1,070,000	250,000
2010 LTGO & refunding	6,720,000	-	460,000	6,260,000	475,000
State Treasurer LOCAL Note-2014	-	152,167	-	152,167	27,468
Premium on Note	-	9,786	-	9,786	-
Total notes and bonds	10,393,000	161,953	882,000	9,672,953	936,468
<b>Total Governmental Activities</b>	<b>11,044,960</b>	<b>200,546</b>	<b>882,000</b>	<b>10,363,506</b>	<b>936,468</b>
	<b>Beginning</b>			<b>Ending</b>	
	<b>Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance</b>	<b>Due in 2015</b>
<b>Business Type Activities</b>					
Compensated absences	\$ 196,948	\$ 11,758	\$ -	\$ 208,706	\$ -
Revenue bonds					
2010 W/S Taxable BAB Series A	5,440,000	-	250,000	5,190,000	255,000
2010 W/S Taxable BAB Series B	5,580,000	-	-	5,580,000	-
2010 W/S Tax-exempt Series C	2,270,000	-	350,000	1,920,000	360,000
Premium on bonds payable	101,906	-	6,794	95,112	-
PWTF Loan-Outfall construction	7,941,176	-	529,412	7,411,764	529,412
PWTF Loan-WWTP Ph 2 const.	-	649,791	-	649,791	-
State Treasurer LOCAL Note-2014	-	82,060	-	82,060	14,813
Premium on Note	-	5,277	-	5,277	-
Total notes and bonds	21,333,082	737,128	1,136,206	20,934,004	1,159,225
<b>Total Business Type Activities</b>	<b>\$21,530,030</b>	<b>\$ 748,886</b>	<b>\$1,136,206</b>	<b>\$21,142,710</b>	<b>\$1,159,225</b>

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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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
2015	\$ 936,468	\$ 391,518
2016	973,877	353,785
2017	1,013,357	314,655
2018	1,051,914	273,850
2019	806,551	231,300
2020 - 2024	3,751,000	677,852
2025 - 2026	1,130,000	51,525
<b>Totals</b>	<b>\$ 9,663,167</b>	<b>\$ 2,294,485</b>

The following general obligation bond/note issues are outstanding as of December 31, 2014:

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	\$2,181,000
<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	\$1,070,000
<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	\$6,260,000
<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	\$152,167



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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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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, 2014.

**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, 2014:

Description/ Purpose	Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
<b>2010 W/S Taxable BAB Series A;</b> Proceeds used to construct a water main and complete wastewater treatment plant upgrades.	2010 - 2030	0.98 – 6.26%	\$6,035,000	\$5,190,000
<b>2010 W/S Taxable BAB Series B;</b> Proceeds used to finance construction of the outfall extension.	2010 – 2030	4.80 – 6.18%	\$5,580,000	\$5,580,000
<b>2010 W/S Tax-exempt Series C;</b> Proceeds used to finance construction of the outfall extension and upgrade lift stations.	2010 – 2030	2.5 – 4.0%	\$2,610,000	\$1,920,000
<b>Public Works Trust Fund Loan - 2008</b> Proceeds used for design of treatment plant expansion.	2009 - 2028	0.5%	\$10,000,000	\$7,411,764
<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	\$649,791
<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	\$82,060

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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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
2015	\$ 1,159,224	\$ 699,068
2016	1,174,984	678,449
2017	1,195,783	653,219
2018	1,216,622	626,330
2019	1,242,505	593,898
2020 - 2024	4,622,059	2,557,336
2025 - 2029	4,802,647	1,647,801
<b>Totals</b>	<b>\$ 15,413,824</b>	<b>\$ 7,456,101</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 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.

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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Interfund transfers through December 31, 2014 were as follows:

Transfers Out	Transfers In				
		General Fund	Street Operating	Park Development	Non-major
	General Fund	\$ -	\$ 1,546,000	\$ 195,000	\$ 1,751,406
	Hospital Benefit Zone	-	-	1,735,000	522,032
	Non-major Funds	360,509		990,250	29,144
	Total Transfers	\$ 360,509	\$ 1,546,000	\$ 2,920,250	\$ 2,302,582
					\$ 7,129,341

**Note 12 - Postemployment Benefits Other Than Pensions (OPEB)**

**Plan description**

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members' necessary hospital, medical, nursing care, vision and dental not payable by worker's compensation, social security, insurance provide by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by one of the City's employee medical insurance programs. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

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

**Funding policy**

Funding for LEOFF 1 retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements. During 2014, the City paid \$79,764 towards OPEB obligation.

**Annual OPEB cost and net OPEB obligation**

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

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years as of January 1, 2009. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation. The net OPEB obligation of \$212,118 is included as a noncurrent liability on the Statement of Net Position.

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
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**Other Post Employment Benefits Obligation**  
**Year Ended 12/31/2014**

**Determination of Annual Required Contribution (ARC):**

Normal Cost	\$ -
Unfunded Actuarial Accrued Liability (UAAL) Amortization	107,895
Annual Required Contribution (ARC)	<u>\$ 107,895</u>

**Determination of Net OPEB Obligation (NOO):**

Annual Required Contribution (ARC)	\$ 107,895
Interest on Net NOO	8,698
Adjustments to ARC	<u>(17,997)</u>
Annual OPEB Cost	98,596
Contributions	<u>79,764</u>
Increase in Net OPEB Obligation	<u>18,832</u>
Net OPEB - Beginning of Year	193,286
Net OPEB - End of Year	<u>\$ 212,118</u>

The City's percentage of annual OPEB contributed to the plan in 2014 is 74%.

**Funded status and funding progress**

As of December 31, 2013, the actuarial accrued liability (AAL) for benefits was \$1,158,746 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

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**CITY OF GIG HARBOR**  
**Notes To The Basic Financial Statements**  
**For the Year Ended December 31, 2014**

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(OSA). Healthcare costs and trends were determined by Miliman 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**

Adjustments related to prior periods are corrections incorporated into the 2014 financial statements.

Fund/Account	Government-Wide Statement Amount	Fund Financial Statement Amount	Reason
General Fixed Assets Account Group	(393,719)	-	Removed asset from construction work in progress account. This asset, from work performed in 2008, will not benefit future periods, therefore will not be capitalized.
General Fixed Assets Account Group	(962,086)	-	This entry is to correct accumulated depreciation in the City's capital asset accounts.
General Fund	(121,574)		This entry is to correct accounts payable in the General Fund.
	<u>\$ (1,477,379)</u>	<u>\$ -</u>	
Water/Sewer Fund	492,238	492,238	This entry corrects accumulated depreciation in the City's capital asset accounts.
Storm Sewer Fund	14,357	14,357	This entry corrects accumulated depreciation in the City's capital asset accounts.
	<u>\$ 506,595</u>	<u>\$ 506,595</u>	

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CITY OF GIG HARBOR  
Supplementary Information  
For the Year Ended December 31, 2014

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

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

**City of Gig Harbor**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2014**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures		
				From Pass- Through Awards	From Direct Awards	Total
Highway Planning and Construction Cluster						
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-07588	556,346	-	556,346
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8412	614,809	-	614,809
Total Highway Planning and Construction Cluster:				1,171,155	-	1,171,155
Highway Safety Cluster						
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	2,956	-	2,956
Total Highway Safety Cluster:				2,956	-	2,956
Other Programs						
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	N/A	-	2,265	2,265
Department Of Homeland Security (via WA State Dept of Parks & Recreation)	Boating Safety Financial Assistance	97.012	A03744	7,046	-	7,046
Total Federal Awards Expended:				1,181,157	2,265	1,183,421

Cushman and Trail Ph 3 Reimbursement 5-8 Cushman Trail Ph 4 Reimbursement 1-4

Distorted Driving /Seatbelt Enforcement

2014 Harbor Patrols

CITY OF GIG HARBOR, WASHINGTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2014**

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

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the GAAP basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown.



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**CITY OF GIG HARBOR**  
**Supplementary Information**  
**For the Year Ended December 31, 2014**

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

	<b>2014</b>
<b>Operating revenues:</b>	
<b>Charges for sales and services:</b>	
Water sales	\$ 1,467,347
Sewer charges	3,781,361
Connection fees	2,838,241
Other fees and charges	6,770
Utility taxes	216,585
<b>Total operating revenues</b>	<b>8,310,304</b>
<b>Operating expenses:</b>	
Operations and maintenance	2,175,175
Administration	1,070,662
Utility taxes	169,133
<b>Total operating expenses</b>	<b>3,414,970</b>
<b>Operating income (loss)</b>	<b>4,895,334</b>
<b>Nonoperating revenues (expenses):</b>	
Investment interest revenue	48,120
Intergovernmental and grants	1,325,365
<b>Total nonoperating revenues (expenses)</b>	<b>1,373,485</b>
<b>Revenue Available for Debt Service</b>	<b>\$ 6,268,819</b>
Maximum principal and interest due in succeeding years	\$ 1,506,894
Coverage	4.16x
Number of utility customers, as of December 31, 2014:	
Sewer	2,374
Water	2,113

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

**City of Gig Harbor  
Pierce County  
January 1, 2014 through December 31, 2014**

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

<b>Finding ref number:</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>Name, address, and telephone of auditee contact person:</b> David Rodenbach, Finance Director 3510 Grandview Street Gig Harbor, WA 98335 (253)853-7610	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The city will perform a more thorough and comprehensive review of accounting requirements and their application.</i>	
<b>Anticipated date to complete the corrective action:</b> Spring 2016	

## 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.

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<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>