



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Gig Harbor

For the period January 1, 2018 through December 31, 2018

Published January 16, 2020

Report No. 1025537





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

January 16, 2020

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

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10
About the State Auditor's Office.....	76

**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
January 1, 2018 through December 31, 2018**

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 8, 2020. As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

January 8, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Gig Harbor January 1, 2018 through December 31, 2018

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing


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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Parity Bond Debt Service Coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

January 8, 2020

FINANCIAL SECTION

City of Gig Harbor January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Activities – 2018

Governmental Funds Balance Sheet – 2018

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental
Funds – 2018

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
– 2018

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2018

Statement of Net Position – Proprietary Funds – 2018

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2018

Statement of Cash Flows – Proprietary Funds – 2018

Notes to the Basic Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund – 2018

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Street Operating Fund – 2018

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 – 2018

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1,
LEOFF 2 – 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2018

SUPPLEMENTARY AND OTHER INFORMATION

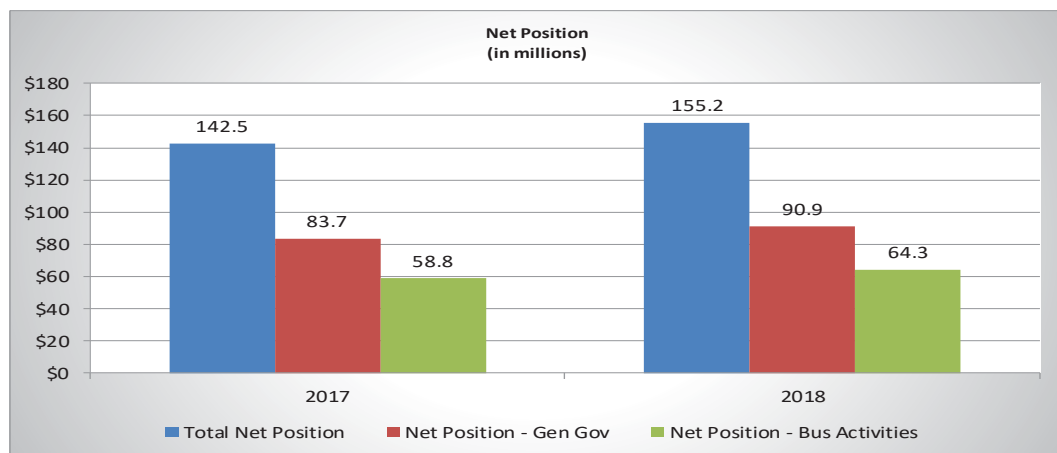
Parity Bond Debt Service Coverage – 2018

City of Gig Harbor Management Discussion and Analysis December 31, 2018

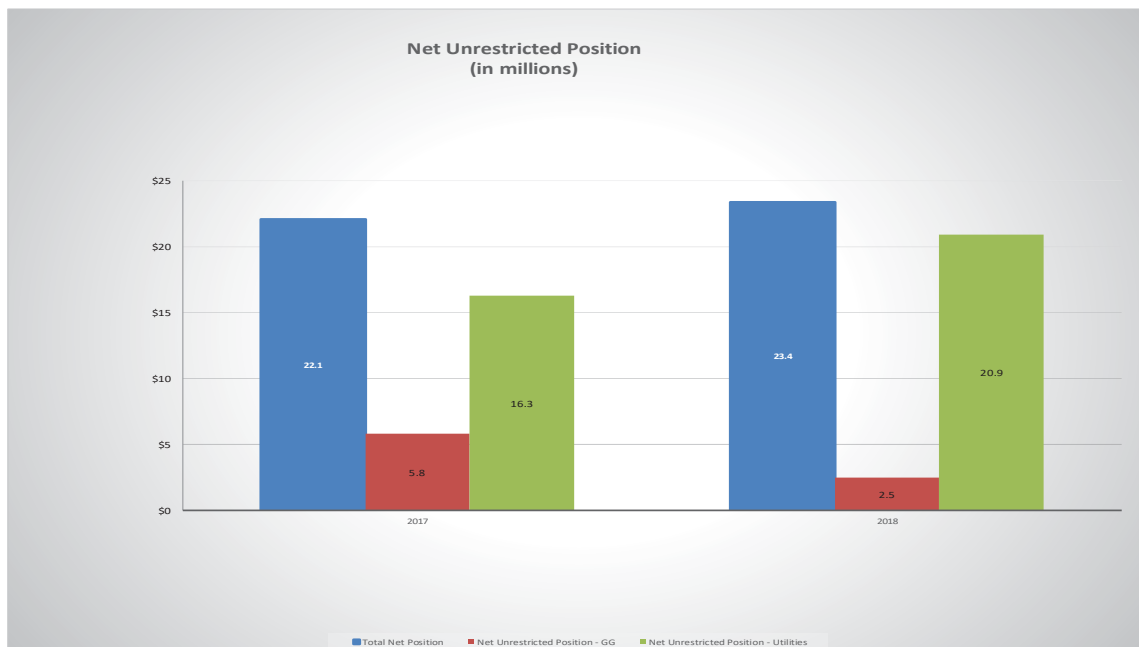
This discussion and analysis provides an overview of the City of Gig Harbor's annual financial report for the fiscal year ended December 31, 2018. The city's financial performance is discussed and analyzed within the context of the accompanying financial statements.

Financial Highlights

- The city's total net position including all funds is \$155 million. This is a \$12.5 million or 8.9 percent increase over the prior year and continues a several year trend of annual increases.



- Net unrestricted position increased in 2018 to \$23.4 million.



City of Gig Harbor
Management Discussion and Analysis
December 31, 2018

- Net investment in capital assets increased from \$107.8 million to \$122.2 million.
- Net capital assets increased from \$145.2 million to \$156.2 million.
- Total tax revenue increased \$903,000 in 2018. This compares with an increase of \$1.2 million in 2017. Taxes collected include property, retail sales, and business and excise taxes.
- Cash and investments of \$38.2 are down a bit from \$40.7 million in 2017. This is a \$2.5 million decrease from the prior year. Governmental activities account for \$17.5 million of year-end cash and investments while business-type activities account for the remaining balance of \$20.6 million.
- City-wide short-term liabilities (due in 2019, excluding short-term portion of long-term debt) are \$2.7 million.
- The city has total liabilities of \$45.7 million of which \$40.2 million are non-current liabilities.

Overview of the Financial Statements

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

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

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

Government-wide financial statements

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

The ***statement of net position*** presents information on all of the city's assets and liabilities, including capital assets and long-term liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city as a whole is improving or deteriorating.

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

Both government-wide financial statements distinguish functions of the city that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges

City of Gig Harbor
Management Discussion and Analysis
December 31, 2018

(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 16 individual governmental funds. Information is presented separately, as major funds, in the governmental funds' balance sheet and statement of revenues, expenditures and changes in fund balances for the General (*Public Art Capital Projects, Civic Center Debt Reserve, Strategic Reserve, Equipment Reserve, and Lighthouse Maintenance funds are consolidated into the general fund for reporting purposes*), Street Operating, Street Capital, Park Development and Hospital Benefit Zone (HBZ) Revenue funds. Data for the other governmental funds (*Non-Major Funds*) are combined into a single, aggregated presentation which is referred to in the statements as "other governmental."

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

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

City of Gig Harbor
Management Discussion and Analysis
December 31, 2018

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

Government-wide Financial Analysis

At year-end, the city's net position (assets plus deferred outflows of resources minus liabilities and deferred inflows of resources) was \$155.0 million. Governmental activities make up \$90.7 million of this balance while the city's business-type activities (water/sewer and storm) own the remaining balance of \$64.3 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 (\$122.2 million) is accounted for in the net investment in capital assets category. This amount is net of 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, 2018, \$9.4 million of the City's net position was restricted. Most of this is related to assets in the Impact Fee Trust and Hospital Benefit Zone capital project funds; and in utility (business-type activities) debt service funds which are restricted by state law or revenue bond covenants. The city's equity in pension assets held by the State of WA is \$1.4 million.

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 \$23.4 million at 12/31/2018. This is an increase of \$1.4 million over 2017.

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2018**

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 19,343,438	\$ 22,560,724	\$ 24,735,001	\$ 21,120,217	\$ 44,078,439	\$ 43,680,941
Capital assets, net	88,659,898	76,867,983	67,539,541	68,311,285	156,199,439	145,179,268
Net pension asset	1,355,515	847,868	-	-	1,355,515	847,868
Total assets	109,358,851	100,276,575	92,274,542	89,431,502	201,633,393	189,708,077
Deferred outflow of resources						
Deferred outflows related to pensions	498,828	481,306	214,808	245,528	713,636	726,834
Total deferred outflows	498,828	481,306	214,808	245,528	713,636	726,834
Liabilities						
Other liabilities	4,933,154	2,950,132	479,840	1,154,219	5,412,994	4,104,351
Long-term liabilities	12,993,717	13,445,007	27,251,083	29,484,284	40,244,800	42,929,291
Total liabilities	17,926,871	16,395,139	27,730,923	30,638,503	45,657,794	47,033,642
Deferred inflow of resources						
Property taxes	-	-	-	-	-	-
Deferred inflows related to pensions	1,267,527	674,701	466,703	278,746	1,734,230	953,447
Total deferred inflows	1,267,527	674,701	466,703	278,746	1,734,230	953,447
Net position						
Net investment in capital assets	80,398,085	67,025,751	41,773,979	40,784,378	122,172,064	107,810,129
Restricted	7,768,532	10,859,939	1,588,800	1,701,589	9,357,332	12,561,528
Unrestricted	2,496,664	5,802,351	20,928,945	16,273,815	23,425,609	22,076,166
Total net position	\$ 90,663,281	\$ 83,688,041	\$ 64,291,724	\$ 58,759,782	\$ 154,955,005	\$ 142,447,823

City-wide governmental operating revenues (general revenues plus program revenues excluding capital grants and contributions) increased from \$20.1 million in 2017 to \$20.5 million in 2018.

Capital grants and contributions increased from \$4.1 million in 2017 to \$4.4 million in 2018.

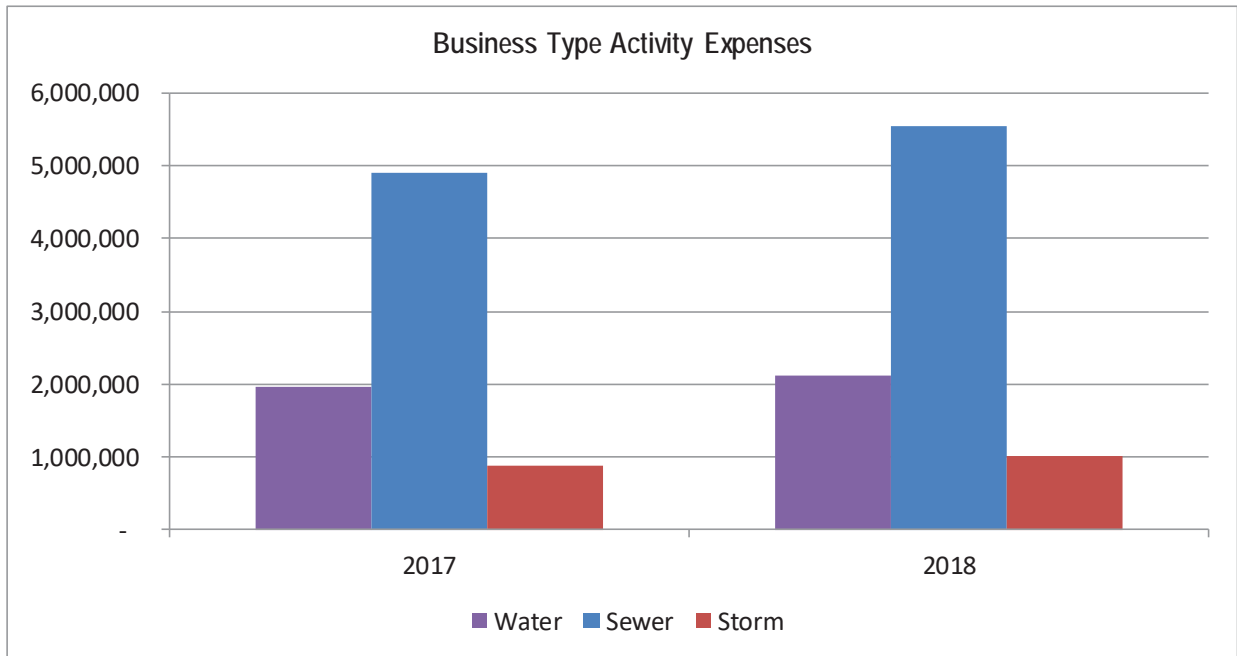
General government expenses increased slightly from \$15.5 million in 2017 to \$15.9 million in 2018.

Total net position for the city's business-type activities (Water/Sewer and Storm) ended the year at \$64.3 million. This is a \$5.5 million increase over the prior year.

City of Gig Harbor business-type charges for services revenues were \$8.6 million. This is a \$900,000 increase over 2017 charges for services of \$7.7 million.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2018

Operating expenses for city-wide business activities were \$8.6 million in 2018. This compares to expenses of \$7.7 million in 2017.



The largest portion of the business-type activities net position (\$41.8 million) is accounted for in the net investment in capital assets category.

Restricted net position in the business-type activities is \$1.6 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 \$20.9 million is unrestricted.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2018

Table 2
Changes in net position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Program revenues						
Charges for services	\$ 2,868,517	\$ 3,734,809	\$ 8,599,566	\$ 7,748,500	\$ 11,468,083	\$ 11,483,309
Operating grants/contributions	956,240	584,015	204,005	215,324	1,160,245	799,339
Capital grants/contributions	4,389,056	4,067,520	4,546,193	5,096,154	8,935,249	9,163,674
General revenues						
Sales and use tax	9,104,775	9,177,444	-	-	9,104,775	9,177,444
Property tax	3,020,182	2,803,277	-	-	3,020,182	2,803,277
Other taxes	4,191,358	3,466,431	317,386	283,377	4,508,744	3,749,808
Other revenues	382,417	325,415	399,834	176,582	782,251	501,997
Total revenues	\$24,912,546	\$24,158,912	\$14,066,984	\$13,519,937	\$ 38,979,530	\$ 37,678,849
Program expenses						
Judicial	394,834	417,645	-	-	394,834	417,645
General government	3,145,226	2,589,100	-	-	3,145,226	2,589,100
Public safety	3,987,156	3,925,882	-	-	3,987,156	3,925,882
Physical Environment/Utilities	9,092	8,389	8,577,426	7,737,324	8,586,518	7,745,713
Transportation	3,322,126	3,818,794	-	-	3,322,126	3,818,794
Economic Environment	2,162,052	2,293,769	-	-	2,162,052	2,293,769
Culture & Recreation	2,498,116	2,143,005	-	-	2,498,116	2,143,005
Interest on long-term debt	389,991	319,692	-	-	389,991	319,692
Total Expenses	15,908,593	15,516,277	8,577,426	7,737,324	24,486,019	23,253,601
Transfers	-	(2,874)	-	2,874	-	-
Increase in net position	\$ 9,003,953	\$ 8,639,761	\$ 5,489,558	\$ 5,785,487	\$ 14,493,511	\$ 14,425,248
Net position, January 1	83,688,041	74,989,503	58,759,782	49,443,703	142,447,823	124,433,206
Prior period adjustment	(2,028,712)	58,777	42,384	3,530,592	(1,986,328)	3,589,369
Net position, December 31	\$90,663,282	\$83,688,041	\$64,291,724	\$58,759,782	\$154,955,006	\$142,447,823

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

At the end of 2018, the city's governmental funds had a combined ending fund balance of \$14.4 million. This is \$5.2 million less than the \$19.6 million ending fund balance reported in 2017. The decrease is a result of construction of two major projects in 2018.

General governmental revenues showed a modest \$700,000 increase in 2018 over 2017. Taxes and intergovernmental revenues were up \$1.4 million over 2017, while permits and charges for service were down about \$700,000.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2018

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 \$14.4 million. About 57 percent (\$8.2 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 (\$1.5 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 \$5.0 million. Virtually all of this balance is restricted for capital projects, debt service and economic development.

General fund revenues showed a slight decrease of \$173,000 in 2018 to \$14.4 million. This is attributed to a slight decline in development permits from 2017, which was a record setting year for permits.

General Fund expenditures increased 3%, or \$302,000 to \$10.8 million in 2018. The table below shows a comparison of expenditures by function.

	2017	2018	Increase / (Decrease)
Judicial	\$ 434,842	\$ 438,716	\$ 3,874
General government	2,619,635	3,198,035	578,400
Security of persons and property	3,758,017	3,773,453	15,436
Physical environment	8,389	9,092	703
Transportation	1,749	-	(1,749)
Economic environment	2,048,272	2,036,797	(11,475)
Mental and physical health	2,426	52,584	50,158
Culture and recreation	1,114,075	1,241,952	127,877
	<u>\$ 9,987,405</u>	<u>\$ 10,750,629</u>	<u>\$ 763,224</u>

The largest increase is under General Government and is due to replacement of the roof on the Civic Center. Culture and recreation (Parks operations) is up nearly \$128,000 over the prior period. This is due to increased maintenance in parks.

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

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2018**

The city's remaining major funds; Street Operating, Street Capital, 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 changes from the adopted to the amended final budget for the General Fund.

The General Fund budget increased \$1.5 million in total uses. The proposed uses for this increase included an increase to the Building and Fire Safety budget and increased transfers out for capital purposes.

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 combined net position was \$64.3 million at year-end. Of this amount, \$20.9 million is unrestricted and available to meet future obligations. The utility also has \$1.6 million restricted for revenue bond debt service.

Water and sewer monthly (billed bi-monthly) revenues increased 15.6 and 10.0 percent respectively to \$2.3 and \$5.3 million. General facilities charges (connection fees) for water and sewer were \$1.8 and \$2.4 million respectively. Storm sewer revenues for monthly service and system connections were \$975,000 and \$306,000 respectively.

Water & sewer operating expenses were \$6.8 million. This is a \$700,000 (11.7 percent) increase over 2017.

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, 2018 totals \$156.2 million. This is an increase of \$11.0 million over 2017. The city's governmental activities own \$88.7 million of this total and the Water-Sewer-Storm system owns \$67.5 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.

City of Gig Harbor
Management Discussion and Analysis
December 31, 2018

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, 2018; unlimited (voted) general obligation bonds (UTGO), limited general obligation bonds (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, 2015 and 2017. Through this program, the city borrowed \$234,227 in 2014, \$283,131 in 2015 and \$336,038 in 2017 for the purchase of vehicles and equipment.

At fiscal year-end the city had \$34,025,102 in outstanding long term debt, not including premiums of \$734,000 on bonds payable.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
LTGO bonds	\$ 4,462,036	\$ 5,065,000	\$ -	\$ -	\$ 4,462,036	\$ 5,065,000
UTGO bonds	1,404,000	1,609,000	-	-	1,404,000	1,609,000
Promissory Note	1,875,000	2,625,000	-	-	1,875,000	2,625,000
Water/Sewer Revenue bonds	-	-	16,448,571	16,895,000	16,448,571	16,895,000
PWTF	-	-	9,156,844	11,329,222	9,156,844	11,329,222
Certificates of Participation	520,776	489,833	157,874	157,214	678,650	647,047
Total	\$8,261,813	\$ 9,788,833	\$25,763,289	\$28,381,436	\$34,025,102	\$38,170,269

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the city'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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 17,533,910	\$ 20,632,010	\$ 38,165,920
Receivables			
Taxes	1,742,912	-	1,742,912
Accounts and contracts	66,616	1,347,352	1,413,968
Interfund loan receivable	-	2,755,639	2,755,639
Capital assets not being depreciated			
Land	23,901,239	848,333	24,749,572
Construction in progress	9,297,914	1,173,303	10,471,217
Capital assets net of accumulated depreciation:			
Buildings	8,373,407	26,347,785	34,721,192
Improvements other than buildings	10,301,257	19,082,284	29,383,541
Machinery and equipment	664,559	449,774	1,114,333
Infrastructure	36,121,522	19,638,062	55,759,584
Net pension asset	1,355,515	-	1,355,515
Total assets	109,358,851	92,274,542	201,633,393
Deferred outflows of resources			
Deferred outflows related to pensions/OPEB	498,828	214,808	713,636
Total deferred outflows of resources	498,828	214,808	713,636
Liabilities			
Accounts payable	1,833,888	316,320	2,150,208
Retainage payable	310,457	-	310,457
Bond interest payable	-	162,720	162,720
Contract payable	33,170	800	33,970
Interfund loan payable	2,755,639	-	2,755,639
Noncurrent liabilities:			
Due within one year	1,622,199	1,820,717	3,442,916
Due in more than one year	7,286,510	24,205,348	31,491,858
Total OPEB Liability	2,086,295	-	2,086,295
Net pension liability	1,998,713	1,225,018	3,223,731
Total liabilities	17,926,871	27,730,923	45,657,794
Deferred inflows of resources			
Deferred inflows related to pensions	1,267,527	466,703	1,734,230
Total deferred inflows of resources	1,267,527	466,703	1,734,230
Net position			
Net investment in capital assets	80,398,085	41,773,979	122,172,064
Restricted for:			
Capital acquisition	5,478,982	-	5,478,982
Debt service	215,019	1,588,800	1,803,819
Pensions	1,355,515	-	1,355,515
Other	719,016	-	719,016
Unrestricted	2,496,664	20,928,945	23,425,609
Total net position	\$ 90,663,281	\$ 64,291,724	\$ 154,955,005

The accompanying notes are an integral part of these statements.

City of Gig Harbor
Statement of Activities
Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Judicial	\$ 394,834	\$ 255,427	\$ 1,484	\$ -	\$ (137,923)	\$ -	\$ (137,923)
General government	3,145,226	378,465	111,064	-	(2,655,697)	-	(2,655,697)
Public safety	3,987,156	-	248,341	-	(3,738,815)	-	(3,738,815)
Physical environment/utilities	9,092	-	-	-	(9,092)	-	(9,092)
Transportation	3,322,126	487,584	578,851	3,388,166	1,132,474	-	1,132,474
Economic environment	2,162,052	1,577,793	16,500	-	(567,759)	-	(567,759)
Culture & recreation	2,498,116	169,249	-	1,000,890	(1,327,977)	-	(1,327,977)
Interest on long-term debt	389,991	-	-	-	(389,991)	-	(389,991)
Total governmental activities	15,908,593	2,868,517	956,240	4,389,056	(7,694,781)	-	(7,694,781)
Business-type activities:							
Water	2,091,407	2,277,033	26,423	1,761,252	-	1,973,301	1,973,301
Sewer	5,471,634	5,347,037	158,345	2,479,439	-	2,513,187	2,513,187
Storm water	1,014,385	975,496	19,237	305,502	-	285,850	285,850
Total business-type activities	8,577,426	8,599,566	204,005	4,546,193	-	4,772,338	4,772,338
Total government	\$ 24,486,019	\$ 11,468,083	\$ 1,160,245	\$ 8,935,249	\$ (7,694,781)	\$ 4,772,338	\$ (2,922,443)
General revenues:							
Taxes:							
Property taxes							
Retail sales taxes							
Business taxes							
Excise & other taxes							
Miscellaneous - incl. investment earnings							
Total general revenues							
Change in net position					16,698,733	717,220	17,415,953
Net position - beginning					9,003,953	5,489,558	14,493,511
Net position - ending					83,688,041	58,759,782	142,447,823
					(2,028,712)	42,384	(1,986,328)
Net position - ending					\$ 90,663,282	\$ 64,291,724	\$ 154,955,006

The accompanying notes are an integral part of these statements.

**City of Gig Harbor
Governmental Funds
Balance Sheet
December 31, 2018**

	General	Street Operating	Street Capital	Park Development	HBZ Revenue	LTGO Bond Redemption	Other Governmental	Governmental Fund Total
Assets								
Cash and cash equivalents	\$ 7,460,989	\$ 678,608	\$ 1,290,232	\$ 1,662,657	\$ 1,453,451	\$ 77,131	\$ 4,910,842	\$ 17,533,910
Accounts receivable								
Taxes	1,606,840	-	-	-	-	-	136,072	1,742,912
Accounts and contracts	56,316	-	-	-	-	-	10,300	66,616
Total assets	9,124,145	678,608	1,290,232	1,662,657	1,453,451	77,131	5,057,214	19,343,438
Liabilities and fund balance								
Liabilities:								
Accounts payable	885,197	60,038	387,846	406,062	-	-	94,745	1,833,888
Interfund loan payable						2,755,639	-	2,755,639
Other Payables	62,546	3,000	-	278,081	-	-	-	343,627
Total liabilities	947,743	63,038	387,846	684,143	-	2,755,639	94,745	4,933,154
Deferred inflows of resources								
Property taxes	25,978	-	-	-	-	-	2,903	28,881
Total deferred inflows of resources	25,978	-	-	-	-	-	2,903	28,881
Fund balances:								
Restricted for:								
Debt service	-	-	-	-	-	-	215,019	215,019
Capital projects	-	-	-	-	1,453,451	-	4,025,531	5,478,982
Economic development	-	-	-	-	-	-	694,762	694,762
Public safety	-	-	-	-	-	-	24,254	24,254
Assigned to:								
Debt service	1,547,645	-	-	-	-	-	-	1,547,645
Parks	-	-	-	978,514	-	-	-	978,514
Streets	-	615,570	902,386	-	-	-	-	1,517,956
Other purposes	868,570	-	-	-	-	-	-	868,570
Unassigned	5,734,209	-	-	-	-	(2,678,508)	-	3,055,701
Total fund balances	8,150,424	615,570	902,386	978,514	1,453,451	(2,678,508)	4,959,566	14,381,403
Total liabilities, deferred inflows of resources and fund balances	\$ 9,124,145	\$ 678,608	\$ 1,290,232	\$ 1,662,657	\$ 1,453,451	\$ 77,131	\$ 5,057,214	\$ 19,343,438

The accompanying notes are an integral part of these statements.

**Reconciliation of the Balance sheet
To the Statement of Net Position
Governmental Funds
December 31, 2018**

Total fund balance of governmental funds: \$ 14,381,403

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

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

These assets consist of:

Land	\$	23,901,239
Buildings and structures		12,880,291
Infrastructure		44,930,468
Improvements		19,207,139
Machinery and equipment		3,234,098
Construction in progress		9,297,914

Less: accumulated depreciation	\$	(24,791,252)	88,659,897
--------------------------------	----	--------------	------------

Net pension asset is not reported in governmental funds	1,355,515
---	-----------

Deferred outflows - pensions are not reported in governmental funds	498,828
---	---------

Deferred inflows - pensions are not reported in governmental funds	(1,267,527)
--	-------------

Deferred inflows - property taxes are only reported in governmental funds	28,881
---	--------

Long-term liabilities, including bonds payable, compensated absences and other post-employment benefits are not due and payable in the current period and, therefore, are not reported in governmental funds.	(12,993,717)
---	--------------

Net position of governmental activities	<u>\$ 90,663,281</u>
---	----------------------

The accompanying notes are an integral part of these statements.

City of Gig Harbor
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended December 31, 2018

	General	Street Operating	Street Capital	Park Development	Hospital Benefit Zone Revenue	LTGO Bond Redemption	Other Governmental	Total
Revenues								
Taxes	\$ 11,686,583	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 2,627,171	\$ 16,313,754
Licenses and permits	1,715,325	21,910	-	-	-	-	-	1,737,235
Intergovernmental revenues	191,279	222,731	3,388,166	1,000,890	-	-	-	4,803,066
Charges for services	272,587	117,406	-	-	-	-	491,678	881,671
Fines and forfeits	155,421	-	-	-	-	-	84	155,505
Miscellaneous	359,803	9,638	361,026	14,013	54,472	2,934	117,820	919,706
Total revenues	14,380,998	371,685	3,749,192	1,014,903	2,054,472	2,934	3,236,753	24,810,937
Expenditures								
Current:								
Judicial	438,716	-	-	-	-	-	-	438,716
General government	3,198,035	-	-	-	-	-	-	3,198,035
Security of persons and property	3,773,453	-	-	-	-	-	2,543	3,775,996
Physical environment	9,092	-	-	-	-	-	-	9,092
Transportation	-	1,786,849	550,147	-	-	-	-	2,336,996
Economic environment	2,036,797	-	-	-	-	-	-	2,331,310
Mental and physical health	52,584	-	-	-	-	-	-	52,584
Culture and recreation	1,241,952	-	-	264,020	-	-	-	1,505,972
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest and other debt service costs	-	-	-	-	-	3,573,593	205,000	3,778,593
Capital outlay	71,758	28,574	5,459,257	8,739,134	-	369,064	60,981	14,298,723
Total expenditures	10,822,387	1,815,423	6,009,404	9,003,154	-	3,942,657	563,037	32,156,062
Excess of revenues over (under) expenditures	3,558,611	(1,443,738)	(2,260,212)	(7,988,251)	2,054,472	(3,939,723)	2,673,716	(7,345,125)
Other financing sources (uses)								
Capital asset disposal	17,669	13,352	-	-	-	-	-	31,021
Debt Proceeds	128,956	-	-	1,870,932	-	-	-	1,999,888
Transfers in	808,000	1,400,000	3,097,373	6,666,781	-	953,400	-	12,925,554
Transfers out	(4,794,781)	-	-	-	(5,083,373)	-	(3,047,400)	(12,925,554)
Total other financing sources and uses	(3,840,156)	1,413,352	3,097,373	8,537,713	(5,083,373)	953,400	(3,047,400)	2,030,909
Net change in fund balance	(281,545)	(30,386)	837,161	549,462	(3,028,901)	(2,986,323)	(373,684)	(5,314,216)
Fund balance at beginning of year	8,431,969	645,956	65,225	429,052	4,482,352	307,815	5,221,904	19,584,273
Prior period adjustment	-	-	-	-	-	-	111,346	111,346
Fund balance at end of year	\$ 8,150,424	\$ 615,570	\$ 902,386	\$ 978,514	\$ 1,453,451	\$ (2,678,508)	\$ 4,959,566	\$ 14,381,403

The accompanying notes are an integral part of these statements.

City of Gig Harbor
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
December 31, 2018

Net change in fund balance - total governmental funds \$ (5,314,216)

*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	14,298,723	
Less current year depreciation	<u>(2,506,606)</u>	11,792,117

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 proceeds	(1,999,888)	
Principal payments	<u>3,778,593</u>	1,778,705

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

	<u>747,347</u>	747,347
--	----------------	---------

Change in net position of governmental activities		<u>\$ 9,003,953</u>
---	--	---------------------

City of Gig Harbor
Statement of Net Position
Proprietary Funds
December 31, 2018

	Water-Sewer Utility	Storm Sewer Operating	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 16,343,924	\$ 2,745,367	\$ 19,089,291
Accounts and contracts	1,061,703	239,568	1,301,271
Advances To (From) Other Funds	2,755,639	-	2,755,639
Total current assets	20,161,266	2,984,935	23,146,201
Noncurrent assets:			
Restricted cash and investments:			
Cash and cash equivalents	1,542,719	-	1,542,719
Receivables	46,081	-	46,081
Land	848,333	-	848,333
Buildings	36,711,755	-	36,711,755
Improvements other than buildings	45,271,957	3,893,171	49,165,128
Machinery and equipment	1,586,910	565,420	2,152,330
Construction in progress	563,184	610,120	1,173,304
Less accumulated depreciation	(20,417,164)	(2,094,145)	(22,511,309)
Capital assets, net of accumulated depreciation	64,564,975	2,974,566	67,539,541
Total noncurrent assets	66,153,775	2,974,566	69,128,341
Total assets	86,315,041	5,959,501	92,274,542
Deferred outflows of resources			
Deferred outflows related to pensions	178,291	36,517	214,808
Total deferred outflows of resources	178,291	36,517	214,808
Liabilities			
Current liabilities:			
Accounts payable	292,435	23,885	316,320
Matured revenue bonds payable	1,764,424	30,243	1,794,667
Revenue bond interest payable	162,720	-	162,720
Compensated absences payable	20,310	5,740	26,050
Other payables	800	-	800
Total current liabilities	2,240,689	59,868	2,300,557
Noncurrent Liabilities:			
Compensated absences payable	182,789	51,664	234,453
Net pension liability	1,016,765	208,253	1,225,018
Revenue bonds payable (net of unamortized premium)	23,887,665	83,230	23,970,895
Total noncurrent liabilities	25,087,219	343,147	25,430,366
Total liabilities	27,327,908	403,015	27,730,923
Deferred inflows of resources			
Deferred inflows related to pensions	387,363	79,339	466,702
Total deferred inflows of resources	387,363	79,339	466,702
Net position			
Net investment in capital assets	38,912,886	2,861,093	41,773,979
Restricted for debt service	1,588,800	-	1,588,800
Restricted for capital acquisition	-	-	-
Unrestricted	18,276,375	2,652,571	20,928,946
Total net position	\$ 58,778,061	\$ 5,513,664	\$ 64,291,725

The accompanying notes are an integral part of these statements.

CITY OF GIG HARBOR
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2018

	Water-Sewer Utility	Storm Sewer Operating	Total
Operating revenues:			
Water sales	\$ 2,259,157	\$ -	\$ 2,259,157
Sewer charges	5,331,073	-	5,331,073
Storm sewer charges	-	975,496	975,496
Connection charges	4,161,118	305,502	4,466,620
Other fees and charges	400,333	16,634	416,967
Total operating revenues	12,151,681	1,297,632	13,449,313
Operating expenses:			
Operations and maintenance	3,578,546	390,217	3,968,763
Administration	1,212,696	402,411	1,615,107
Depreciation	1,710,901	197,422	1,908,323
Utility taxes	250,427	18,997	269,424
Total operating expenses	6,752,570	1,009,047	7,761,617
Operating income (loss)	5,399,111	288,585	5,687,696
Nonoperating revenues (expenses):			
Intergovernmental revenue	184,768	19,237	204,005
Investment earnings	351,391	48,442	399,833
Interest expense	(814,972)	(4,033)	(819,005)
Other debt service expense	(3,705)	(112)	(3,817)
Gain/(Loss) on sale of capital assets	14,802	6,045	20,847
Total nonoperating revenues (expenses)	(267,716)	69,579	(198,137)
Income Before Contributions and Transfers	5,131,395	358,164	5,489,559
Changes in net position	5,131,395	358,164	5,489,559
Total net position-beginning	53,646,666	5,113,116	58,759,782
Prior period adjustment	-	42,384	42,384
Total net position-ending	\$ 58,778,061	\$ 5,513,664	\$ 64,291,725

The accompanying notes are an integral part of these statements.

CITY OF GIG HARBOR
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

	Enterprise Funds		
	Total Water/Sewer Utility	Storm Sewer	Total Enterprise Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 4,708,908	\$ 988,063	\$ 5,696,971
Payments to suppliers	(3,605,466)	(519,043)	(4,124,509)
Payments to employees	(2,017,435)	(381,585)	(2,399,020)
Other receipts (payments)	4,561,451	322,136	4,883,587
Net cash provided (used) by operating activities	3,647,458	409,571	4,057,029
Cash Flows from Non-capital Financing Activities			
Subsidy from federal grant	-	19,237	19,237
Net cash provided (used) by non-capital financing activities	-	19,237	19,237
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(1,230,478)	(100,943)	(1,331,421)
Principal paid on revenue bond maturities	(1,732,527)	(2,844)	(1,735,371)
Interest paid on revenue bonds	(677,198)	(1,647)	(678,845)
Proceeds from asset disposal	14,802	1,603	16,405
Net cash provided (used) by capital and related financing activities	(3,625,401)	(103,831)	(3,729,232)
Cash Flows from Investing Activities			
Interest received from investments	351,391	48,442	399,833
Net cash provided by investing activities	351,391	48,442	399,833
Net increase (decrease) in cash and cash equivalents	373,448	373,419	746,867
Cash and cash equivalents, beginning	17,513,196	2,371,948	19,885,144
Cash and cash equivalents, ending	\$ 17,886,644	\$ 2,745,367	\$ 20,632,011
Reconciliation of Operating Income to Net Cash			
Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 5,399,111	\$ 288,585	\$ 5,687,696
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,710,901	197,422	1,908,323
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(2,883,708)	12,567	(2,871,141)
Increase (decrease) in accounts payable	(578,846)	(89,003)	(667,849)
Total adjustments	(3,462,554)	(76,436)	(3,538,990)
Net cash provided by operating activities	\$ 3,647,458	\$ 409,571	\$ 4,057,029

The city did not participate in any non-cash investing, capital, or financing activities in 2018.

The accompanying notes are an integral part of these statements.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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.

With this report, the city has implemented GASB Statement No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14; GASB Statement No. 81, Irrevocable Split-Interest Agreements; and GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, No. 73 and GASB 75.

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

type after total net expense of the city's functions. This includes taxes and other items not properly included among program revenues which are reported instead as general revenues.

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.

Governmental revenues susceptible to accrual are:

- Taxes (all except property)
- Property taxes – subject to 30-day availability after year-end
- Franchise fees

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 and Equipment Reserve funds are consolidated into the general fund in this financial report. For operational purposes these funds are accounted for separately throughout the year.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

- 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.
- 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.

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. This fund does not qualify as a major fund based on GASB criteria, however it is presented as a major fund based on qualitative reasons.

Street Capital Fund

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

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. This fund does not qualify as a major fund based on GASB criteria, however it is presented as a major fund based on qualitative reasons.

LTGO Bond Redemption Fund

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

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.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Storm Sewer Operating Fund

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

Non-major governmental funds:

State Drug Investigation Fund

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

Federal Drug Investigation Fund

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.

2005 Bond Redemption Fund

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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.

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.

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.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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 2018 fiscal year.

4. Deficit fund equity

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

E. Assets, Liabilities and Equities

Cash and cash equivalents

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

Investments are stated at fair value.

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

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

At December 31, 2018, the treasurer was holding \$38,165,918 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.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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, 2018, the city does not have any special assessments outstanding.

Restricted Assets

At December 31, 2018, the restricted assets of the enterprise funds are composed of the following:

Cash & cash equivalents - debt service	\$ 1,542,719
Accounts receivable	\$ 46,081

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 acquisition value at the date of donation. Assets purchased with federal funds are capitalized at the \$5,000 threshold.

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

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 2018 was \$1,249,050 (general government - \$430,045 and proprietary \$819,005). The City did not have any debt-financed capital projects under construction in 2018; therefore all 2018 interest costs were expensed.

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

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Compensated Absences

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

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

Other post-employment benefits – See Note 12.

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

Pensions

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

Long-term liabilities - See Note 9.

Interfund loans

ON December 10, 2018, the City established an interfund loan from the Water-Sewer utility to the LTGO Bond Redemption Fund. The amount of the loan was \$2,755,639; and the term was 25 months with a final repayment date of January 31, 2021. The interest rate for this loan is one percent (1%) greater than the average monthly gross earnings rate of the Washington State Treasurer's Local Government Investment Pool.

Net position / Fund balance

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

Fund balance components

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

- 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.

Committed and assigned amounts are deemed to have been spent as expenditures are incurred for those related commitments or assignments.

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 position-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, 2018, 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	1,030,756
Opus Bank money market account	10,310,661
State Treasurer's Pool (cash equivalents)	<u>26,824,201</u>
Total Cash and Cash Equivalents	\$ 38,165,918

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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, 2018, the City's had the following investments and maturities:

Investment	Amortized Cost	Maturities	
		Less Than One Year	One to Five years
Local Government Investment Pool	\$ 26,824,201	\$ 26,824,201	\$ -
Opus Bank money market account	10,310,661	10,310,661	-
Total Investments	\$ 37,134,862	\$ 37,134,862	\$ -

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

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 or Opus Bank money market account which reduces the City's interest rate risk due to the shorter term maturities of the investments in the Pool and liquidity of the money market account. As of the end of the year ended December 31, 2018, 100 percent of the City's investments were in the LGIP or Opus Bank money market account.

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.

The city is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

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.

Fair Value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels:

Level 1 - Pricing inputs are observable inputs such as quoted prices, available in active markets, for identical assets on the measurement date.

Level 2 - Pricing inputs are either directly or indirectly observable inputs available in active markets as of the measurement date.

Level 3 - Pricing inputs are unobservable inputs used in cases where financial instruments are considered illiquid, with no significant market activity and little or no pricing information on the date of measurement.

All investment balances as of December 31, 2018 are based on level 1 inputs.

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

The city's regular levy for collection in 2018 was \$1.0322 per \$1,000 on an assessed valuation of \$2,681,847,608 for a total regular levy of \$2,768,188.

The city's excess levy for payment of the 2005 voted general obligation bonds was \$0.1123 per \$1,000 on an assessed valuation of \$2,671,637,273 for a total levy of \$300,000.

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
2018	\$2,768,188	\$300,000	99.1
2017	2,534,524	300,000	99.1
2016	2,318,381	300,000	98.8
2015	2,207,695	250,000	99.8
2014	2,323,722	250,026	98.9
2013	\$2,285,574	\$250,000	98.5

Note 6 – Capital assets

A. Depreciation for the year ended December 31, 2018 was as follows:

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 13,715
Public Safety	258,595
Transportation	1,166,926
Culture and Recreation	1,067,370
Total depreciation for governmental activities	<u>\$ 2,506,606</u>

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

Water	\$ 355,874
Sewer	1,355,027
Stormwater	197,422
Total depreciation for business-type activities	<u>\$ 1,908,323</u>

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

B. Capital asset activity for the year ended December 31, 2018 was as follows:

Governmental Activities	Beginning			Ending
Description	Balance	Increase	Decrease	Balance
Land	\$ 21,399,234	\$ 2,502,005	\$ -	\$ 23,901,239
CIP	10,194,033	11,719,489	12,615,608	9,297,914
Total non-depreciable assets	31,593,267	14,221,494	12,615,608	33,199,153
Depreciable assets				
Buildings	12,526,318	353,973	-	12,880,291
Other Improvements	19,205,494	1,645	-	19,207,139
Machinery & Equipment	3,309,329	75,584	150,815	3,234,098
Infrastructure	32,668,833	12,261,635	-	44,930,468
Total depreciable assets	67,709,974	12,692,837	150,815	80,251,996
Less accumulated depreciation for:				
Buildings	4,142,950	363,934	-	4,506,884
Other Improvements	8,202,446	703,436	-	8,905,882
Machinery & Equipment	2,389,260	331,094	150,815	2,569,539
Infrastructure	7,700,602	1,108,344	-	8,808,946
Total accumulated depreciation	22,435,258	2,506,808	150,815	24,791,251
Total depreciable assets, net	45,274,716	10,186,029	-	55,460,745
Governmental activities net capital assets	\$ 76,867,983	\$ 24,407,523	\$ 12,615,608	\$ 88,659,898

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Business-type activities Description	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 848,333	\$ -	\$ -	\$ 848,333
CIP	12,901,992	410,514	12,139,203	1,173,303
Total non-depreciable assets	13,750,325	410,514	12,139,203	2,021,636
Depreciable assets				
Buildings	36,711,756	-	-	36,711,756
Other improvements	13,900,321	8,427,827	-	22,328,148
Machinery & equipment	2,257,710	8,181	113,813	2,152,078
Infrastructure	22,407,972	4,429,261	-	26,837,233
Total depreciable assets	75,277,759	12,865,269	113,813	88,029,215
Less accumulated depreciation for:				
Buildings	9,512,718	851,253	-	10,363,971
Other improvements	2,887,995	357,869	-	3,245,864
Machinery & equipment	1,686,446	129,671	113,813	1,702,304
Infrastructure	6,629,640	569,531	-	7,199,171
Total accumulated depreciation	20,716,799	1,908,324	113,813	22,511,310
Total depreciable assets, net	54,560,960	10,956,945	-	65,517,905
Business-type activities net capital assets	\$ 68,311,285	\$ 11,367,459	\$ 12,139,203	\$ 67,539,541

- C. The city has three active constructions projects as of December 31, 2018. Remaining commitments for these projects total \$11.9 million.

Note 7 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 3,223,730
Pension assets	1,355,515
Deferred outflows of resources	681,162
Deferred inflows of resources	1,734,230
Pension expense/expenditures	\$ 90,475

State Sponsored Pension Plans

Substantially all city's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

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

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2018:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%
September – December 2018:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

* For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

The city's actual PERS plan contributions were \$331,794 to PERS Plan 1 and \$492,102 to PERS Plan 2/3 for the year ended December 31, 2018.

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

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

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

- 20+ years of service – 2.0% of FAS

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2018. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2018:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
July – December 2018:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%

The city's actual contributions to the plan were \$106,873 for the year ended December 31, 2018.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2018, the state contributed \$68,152,127 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$68,026.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$2,657,081	\$ 2,162,096	\$ 1,733,339
PERS 2/3	4,855,939	1,061,634	(2,049,272)
LEOFF 1	(99,828)	(125,487)	(147,579)
LEOFF 2	\$(163,571)	\$ (1,230,028)	\$ (2,099,848)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the city reported a total pension liability of \$3,223,730 and a total pension asset of \$1,355,515. The city's proportionate share of the net pension liabilities as follows:

	Liability	Asset
PERS 1	\$ 2,162,096	
PERS 2/3	1,061,634	
LEOFF 1		\$ 125,487
LEOFF 2		1,230,028
Total Net Pension Liability/Asset	\$ 3,223,730	\$1,355,515

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the city were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$125,487	\$1,230,028
State's proportionate share of the net pension asset associated with the employer	848,794	796,420
TOTAL	\$974,281	\$2,026,448

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.048376%	0.048412%	0.000036%
PERS 2/3	0.062254%	0.062178%	-0.000076%
LEOFF 1	0.006458%	0.006912%	0.000454%
LEOFF 2	0.054039%	0.060586%	0.006547%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2018, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2018, the state of Washington contributed 39.30 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Pension Expense

For the year ended December 31, 2018, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 190,473
PERS 2/3	(18,286)
LEOFF 1	(26,422)
LEOFF 2	(55,290)
TOTAL	\$ 90,475

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$85,920
Contributions subsequent to the measurement date	\$155,995	\$0
TOTAL	\$155,995	\$85,920

PERS Plan 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$130,129	\$185,873
Net difference between projected and actual investment earnings on pension plan investments	0	651,468
Changes of assumptions	12,419	302,132
Changes in proportion and differences between contributions and proportionate share of contributions	36,416	2,771
Contributions subsequent to the measurement date	230,325	0
TOTAL	\$409,289	\$1,142,244

LEOFF Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$10,188
TOTAL	\$0	\$10,188

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$65,890	\$28,561
Net difference between projected and actual investment earnings on pension plan investments	0	215,271
Changes of assumptions	696	176,531
Changes in proportion and differences between contributions and proportionate share of contributions	0	75,513
Contributions subsequent to the measurement date	49,292	0
TOTAL	\$115,878	\$496,876

Combined – PERS 1, 2/3; LEOFF 1 & 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$196,069	\$214,434
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$962,847
Changes of assumptions	\$13,116	\$478,664
Changes in proportion and differences between contributions and proportionate share of contributions	\$36,416	\$78,284
Contributions subsequent to the measurement date	\$435,612	\$0
TOTAL	\$681,162	\$1,734,230

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2019	3,759	(96,921)	10	(35,832)
2020	(18,783)	(209,316)	(2,298)	(68,426)
2021	(56,362)	(390,869)	(6,260)	(136,208)
2022	(14,535)	(139,774)	(1,640)	(55,307)
2023	-	(46,766)	-	(24,788)
Thereafter	-	(79,635)	-	(108,731)
Total	\$(85,920)	\$(963,280)	\$(10,188)	\$(429,291)

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

City of Gig Harbor Retirement Plan - Defined Contribution

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

As of December 31, 2018 there were a total of 160 individuals covered by this system; 97 of whom are currently employed by the city.

The Gig Harbor City Council established the plan with city ordinance 411, effective 1/1/83, as authorized by the Federal Social Security Act, *42 USCA, Section 418 (g)*. The plan was established as an alternative to the Federal Social Security System.

All full-time permanent employees of the city are required to participate in the system, with the city matching the employee's required contribution. Employees contribute 6.2 percent of their gross pay and the city matches with a 6.2 percent contribution less the cost of a long term disability and life insurance premium. All employees are 100 percent vested upon entry into the Plan; and normal retirement age is 59.5.

Covered payroll for 2018 was \$7,132,829 and total city payroll was \$8,655,046. Actual city contributions during 2018 were \$447,175, which represents 100% of its current year obligation; and the 2018 pension expense for the Plan. Employee contributions during 2018 were \$497,890. Employees choose from a variety of investment funds offered and administered by ICMA Retirement Corporation. Plan assets amounted to \$17,333,123 at December 31, 2018.

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

Note 8 – Risk management

The City of Gig Harbor is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2018, 100 municipalities/entities participate in the AWC RMSA pool.

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2018, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

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

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

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

The city did not have any claims settlements that exceeded insurance coverage in each of the last three years: 2016, 2017 and 2018.

Note 9 - Long-term liabilities

The city issues general obligation and revenue bonds to finance the acquisition of equipment or construction of major capital facilities. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. The city has general obligation bonds outstanding which were issued for general government projects and are being repaid from governmental debt service funds. In addition, the city also has revenue bonds outstanding. The city's water and sewer revenues are pledged to pay the debt service on these bonds. The city is also liable for notes that were entered into for the purchase of vehicles and equipment. The entire balance of the notes is a general obligation of the city, with the exception of the debt service on the 2014 and 2015 notes, which are being paid from general governmental debt service funds, water, sewer and storm revenues.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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 amortization of discount.

At December 31, 2018, the city has \$291,654 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,706,609 in debt service funds and reserves as required by bond indentures.

The City had no arbitrage rebate liability for outstanding tax exempt bonds in 2018.

The City's long-term liabilities are as follows:

	2018 Beginning Balance	Increase	Decrease	2018 Ending Balance	Due in 2019
Governmental Activities					
Other Post Employment Benefits	\$ 230,152	\$ 2,086,295	\$ 230,152	\$ 2,086,295	\$ -
Net Pension Liability	2,764,275	-	765,562	1,998,713	-
Compensated absences	608,348	38,548	-	646,896	64,690
Other non-current obligations	\$ 3,602,775	\$ 2,124,843	\$ 995,714	\$ 4,731,904	\$ 64,690
General obligation bonds					
2005 UTGO	1,609,000	-	205,000	1,404,000	213,000
2008 LTGO	285,000	-	285,000	-	-
2010 LTGO & refunding	4,780,000	-	530,000	4,250,000	560,000
Premium on bonds payable	238,541	-	26,505	212,036	-
Promissory Note	2,625,000		2,625,000	-	-
Promissory Note	-	1,875,000	-	1,875,000	625,000
State Treasurer LOCAL Notes	489,833	116,059	134,193	471,699	159,509
Premium on Notes	53,399	14,021	18,343	49,077	-
Total notes and bonds	10,080,773	2,005,080	3,824,040	8,261,813	1,557,509
Total Governmental Activities	\$ 13,683,548	\$ 4,129,923	\$ 4,819,754	\$ 12,993,717	\$ 1,622,199

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

	Beginning Balance	Increase	Decrease	Ending Balance	Due in 2019
Business Type Activities					
Net Pension Liability	\$ 1,694,233	\$ -	\$ 469,215	\$ 1,225,018	\$ -
Compensated absences	239,930	20,573	-	260,503	26,050
Other non-current obligations	\$ 1,934,163	\$ 20,573	\$ 469,215	\$ 1,485,521	\$ 26,050
Revenue bonds					-
2010 W/S Taxable BAB Series A	4,410,000	-	275,000	4,135,000	285,000
2010 W/S Taxable BAB Series B	5,580,000	-	-	5,580,000	-
2010 W/S Tax-exempt Series C	805,000	-	395,000	410,000	410,000
2017 W/S Tax-exempt	6,100,000	-	235,000	5,865,000	240,000
Premium on bonds payable	495,091	-	36,520	458,571	-
PWTF Loan-Outfall construction	5,823,528	-	529,412	5,294,116	529,412
PWTF Loan-WWTP Ph 2 const.	4,138,637	-	275,909	3,862,728	275,909
State Treasurer LOCAL Note-2014	35,303	-	17,210	18,093	18,093
State Treasurer LOCAL Note-2015	41,383	-	13,127	28,256	13,784
State Treasurer LOCAL Note-2017	113,263	-	16,417	96,846	22,469
Premium on Notes	17,439	3,638	6,397	14,680	-
Total notes and bonds	27,559,644	3,638	1,799,992	25,763,289	1,794,667
Total Business Type Activities	\$ 29,493,807	\$ 24,211	\$ 2,269,207	\$ 27,248,810	\$ 1,820,717

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:

GO Annual Debt Service Requirements		
Year Ending		
December 31	Principal	Interest
2019	1,557,509	292,097
2020	1,558,256	238,913
2021	1,406,830	186,682
2022	815,104	138,502
2023	752,000	104,901
2024 - 2026	1,911,000	123,890
Totals	\$ 8,000,699	\$ 1,084,985

The following general obligation bond/note issues are outstanding as of December 31, 2018:

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Description/ Purpose	Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
2005 Unlimited Tax General Obligation Bonds; Bond proceeds were used to finance purchase of the Eddon Boatyard Property. Debt service payments are funded from excess property taxes as approved by voters in an election held November 2, 2004.	2005 - 2024	3.79%	\$3,500,000	\$1,404,000
2008 Limited Tax General Obligation Bonds; Bond proceeds were used to finance street and park projects. Debt service payments are funded from real estate excise tax.	2008 - 2018	3.98%	\$2,395,000	\$ 0
2010 Limited Tax General Obligation and Refunding Bonds; Refunding bonds used to advance refund the 2001 LTGO bonds maturing June 2012 through June 2026. The LTGO (new money) portion of the bond issue was used to purchase a water front property. Debt service payments are funded from general revenues.	2010 - 2016	3.0 – 4.55%	\$7,730,000	\$4,250,000
2014 Notes Payable; 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	\$ 34,390
2015 Notes Payable; original issue amount \$283,131; dated 9/24/2015; bearing interest at 1.46428% with a final maturity date of December 1, 2020. Proceeds were used to purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.	2015 - 2020	1.46428%	\$218,172	\$ 94,832
2017 Notes Payable; original issue amount \$285,510; dated 9/12/2017; bearing interest at 1.27097% with a final maturity date of June 1, 2022. Proceeds were used to purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.	2017-2022	1.27097%	\$285,510	\$ 343,363
2018 Promissory Note; issue amount \$1,875,000, dated 5/25/2018; bearing interest at 2.18% with a final maturity date of 5/30/2021.	2018-2021	2.18%	\$1,875,000	\$1,875,000

Special assessment bonds

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

The city does not have any special assessment bonds outstanding as of December 31, 2018.

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, 2018:

Description/ Purpose	Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
2010 W/S Taxable BAB Series A; Proceeds used to construct a water main and complete wastewater treatment plant upgrades.	2010 - 2030	0.98 – 6.26%	\$6,035,000	\$ 4,135,000
2010 W/S Taxable BAB Series B; Proceeds used to finance construction of the outfall extension.	2010 – 2030	4.80 – 6.18%	\$5,580,000	\$ 5,580,000
2010 W/S Tax-exempt Series C; Proceeds used to finance construction of the outfall extension and upgrade lift stations.	2010 – 2030	2.5 – 4.0%	\$2,610,000	\$ 410,000
Public Works Trust Fund Loan - 2008 Proceeds used for design of treatment plant expansion.	2009 - 2028	0.5%	\$10,000,000	\$ 5,294,118
Public Works Trust Fund Loan - 2014 Wastewater Treatment Plant Improvements, Treatment Plan Upgrade Phase 2. Total loan amount upon project completion will be \$5,950,000.	2014 - 2034	0.25%	\$649,791	\$ 3,862,728
2014 Notes Payable; 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	\$ 18,093
2015 Notes Payable; original issue amount \$283,131; dated 9/24/2015; bearing interest at 1.46428% with a final maturity date of December 1, 2020. Proceeds were used to	2015 - 2020			

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.		1.46428%	\$ 64,958	\$ 28,256
2017 W/S Tax Exempt Revenue Bonds; Proceeds used to construct a lift station and well.	2017-2036	2.0 – 4.0%	6,220,000	\$ 5,865,000
2017 Notes Payable; original issue amount \$80,528; dated 9/12/2017; bearing interest at 1.27097% with a final maturity date of 6/1/22. Proceeds were used to purchase vehicles and equipment. Debt service payments are funded from sales and utility taxes.	2017-2022	1.27097%	\$113,262	\$ 96,846

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

Revenue Debt Annual Debt Service Requirements

Year Ending December 31	Principal	Interest
2019	\$ 1,788,173	\$ 831,002
2020	1,796,568	791,910
2021	1,807,934	744,293
2022	1,843,815	691,944
2023	1,881,293	638,952
2024 - 2028	9,936,604	2,269,688
2029 - 2033	4,948,636	650,732
2034 - 2036	1,275,000	103,200
Totals	\$ 25,278,023	\$ 6,721,721

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.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

The city participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

Note 11 – Transfers to/from other funds

In most years the City has several routine interfund transfers. These are mostly transfers from the general fund to debt service funds for debt service and to fund various capital project activities such as property acquisition and street rehabilitation and construction.

Interfund transfers through December 31, 2018 were as follows:

	Transfers In						
	General Fund	Street Operating	Street Capital	Park Development	LTGO Bond Fund	Non-major Funds	Total
General Fund	\$ -	\$1,400,000	\$ -	\$ 2,737,781	\$ 657,000	\$ -	\$ 4,794,781
Street Capital	233,000	-	-	-	-	120,000	353,000
Hospital Benefit Zone	-	-	2,654,373	2,429,000	-	-	5,083,373
Non-major Funds	575,000	-	796,000	1,500,000	296,400	-	3,167,400
Total Transfers	\$ 808,000	\$1,400,000	\$3,450,373	\$ 6,666,781	\$ 953,400	\$ 120,000	\$13,398,554

Note 12 – Defined Benefit Other Postemployment Benefits Plan (OPEB)

Gig Harbor LEOFF1 Other Postemployment Benefits Plan (OPEB)

Plan description

This plan is administered by the City of Gig Harbor and is a single-employer defined benefit plan with no qualifying trust.

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 75, for the year 2018:

Aggregate Pension Amounts – All Plans	
OPEB liabilities	\$ 2,086,295
Deferred outflows of resources	32,474

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 provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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 three LEOFF 1 retirees covered by the Plan and no active LEOFF 1 employees. The Plan is closed to new entrants.

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	0
Active employees	0
Total	3

Funding policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The City's funding policy is pay-as-you-go. During 2018, the City paid \$31,959 towards the OPEB obligation.

Actuarial Assumptions

The total OPEB liability for the City was determined using the *"2016 LEOFF 1 Medical Benefits Actuarial Valuation Report."* The actuarial assumptions used in the valuation were based on the results of this report.

The following specific assumptions were made in developing the valuation:

- We assumed any remaining active members will retire immediately following the measurement date.
 - We made this simplifying assumption considering that over 99 percent of LEOFF 1 members are already retired and the remaining members are all eligible to retire.
 - This approach inherently assumes that all liabilities are fully earned and the Service Cost equals zero. In other words, the Entry Age Normal Total OPEB Liability is by definition equal to the Present Value of Future Benefits. Further, we implicitly do not need to make an assumption with respect to Projected Salary Changes.
- Each cohort is assumed to be 100 percent male.
 - As of the measurement date, greater than 98 percent of the eligible LEOFF 1 population is male. For purposes of OPEB measurement, we believe this simplification is reasonable and note that it only impacts mortality assumptions selected.
- The four age-based cohorts for the OPEB measurement were based upon the overall distribution of the LEOFF 1 eligible population.
- Medical and long-term care costs were projected from June 30, 2016 to the measurement date of June 30, 2018 using the healthcare trend rates detailed in the *"2016 LEOFF 1 Medical Benefits Actuarial Valuation Report."*

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

Sensitivity of Total OPEB Liability (TOL)

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

The following presents the total OPEB liability of the city calculated using the current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8 percent) or 1-percentage point higher (7.8 percent) than the current rate.

	1% Decrease (5.8%)	Current Discount Rate (6.8%)	1% Increase (7.8%)
OPEB - TOL	\$1,798,091	\$ 2,086,295	\$ 2,440,762

The following presents the total OPEB liability of the city calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
OPEB - TOL	\$2,459,889	\$ 2,086,295	\$ 1,789,811

Changes in Total OPEB Liability (TOL)

Total OPEB Liability at 1/1/2018	\$2,168,093
Service cost	-
Interest	76,554
Changes in benefit terms	-
Differences between expected and actual experience	(98,386)
Changes of assumptions	-
Benefit payments	(59,966)
Other changes	-
Total OPEB Liability at 12/31/2018	\$2,086,295

The measurement date for the Total OPEB Liability is 6/30/2018.

At December 31, 2018, the city reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	\$ -	\$ -
Payments subsequent to the measurement date	\$ 32,474	\$ -
TOTAL*	\$ 32,474	\$ -

Deferred outflows of resources of \$32,474 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2019. There are no other deferred outflows and deferred inflows of resources related to OPEB.

NOTE 13 – Prior Period Adjustments

Adjustments related to prior periods are corrections incorporated into the 2018 financial statements.

Fund/Account	Government- Wide Statement Amount	Fund Financial Statement Amount	Reason
Other governmental	-	(327,823)	This entry is to reflect removal of Street Capital fund from aggregation within Other Governmental funds and presentation as a major fund in the fund financial statements.
	<u>\$ -</u>	<u>\$ (327,823)</u>	
Water/Sewer/Storm Fund	42,384	42,384	Corrects long term debt and related premium accounts.
Governmental Activities	(2,131,669)	-	GASB 75 new beginning balance
Governmental Activities	230,152	-	Remove GASB 45 balance
Governmental Activities	111,346	111,346	Correct accrual in receivable account
Governmental Activities	(238,541)	-	Correct beginning bond premium payable account
	<u>\$ (2,028,712)</u>	<u>\$ 111,346</u>	

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Revenues, Expenditures, and
Changes in Fund Balances-Budget and Actual
General Fund
For the Fiscal year ended December 2018

	2017-18 Biennial Budget			
	Original	Final	Actual Amounts	Variance
Revenues				
Taxes	\$ 22,063,759	\$ 22,063,759	\$ 23,071,198	\$ 1,007,439
Licenses and permits	4,312,454	4,312,454	3,752,049	(560,405)
Intergovernmental revenues	254,000	254,000	378,113	124,113
Charges for services	511,304	511,304	574,652	63,348
Fines and forfeits	260,463	260,463	283,966	23,503
Miscellaneous	347,000	347,000	682,806	335,806
Total revenues	27,748,980	27,748,980	28,742,784	993,804
Expenditures				
Current:				
Judicial	922,011	922,011	873,558	48,453
General government	5,985,572	6,432,551	5,817,670	614,881
Security of persons and property	7,992,330	7,992,330	7,531,470	460,860
Physical environment	16,968	16,968	17,481	(513)
Transportation	20,000	20,000	1,749	18,251
Economic environment	4,297,640	4,322,600	4,085,069	237,531
Mental and physical health	104,000	104,000	55,010	48,990
Culture and recreation	2,399,475	2,632,475	2,356,027	276,448
Capital outlay	558,850	558,850	604,093	(45,243)
Total expenditures	22,296,846	23,001,785	21,342,127	1,659,658
Excess of revenues over (under) expenditures	5,452,134	4,747,195	7,400,657	2,653,462
Other financing sources (uses)				
Bond Proceeds	-	-	373,292	373,292
Capital asset disposal	-	-	14,669	14,669
Transfers in	1,117,500	1,117,500	575,000	(542,500)
Transfers out	(7,650,000)	(8,400,000)	(9,340,504)	(940,504)
Total other financing sources (uses)	(6,532,500)	(7,282,500)	(8,377,543)	(1,095,043)
Net change in fund balance	(1,080,366)	(2,535,305)	(976,886)	1,558,419
Fund balance - beginning	4,307,349	4,307,349	6,711,095	2,403,746
Fund balance - ending	\$ 3,226,983	\$ 1,772,044	\$ 5,734,209	\$ 3,962,165
Adjustment to generally accepted accounting principles (GAAP) basis:				
Civic Center Debt Reserve Fund			1,547,645	
Strategic Reserve Fund			427,908	
Equipment Reserve Fund			329,111	
Public Art Capital Projects Fund			111,551	
Fund balance - GAAP basis			8,150,424	

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Revenues, Expenditures,
Changes in Fund Balances-Budget and Actual
Street Operating Fund

	<u>2017-18 Biennial Budget</u>		<u>Actual</u>	
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Amounts</u>	<u>Variance</u>
Revenues				
Licenses and permits	\$ 40,000	\$ 40,000	\$ 41,507	\$ 1,507
Intergovernmental revenues	389,562	389,562	428,759	39,197
Charges for Service	456,375	456,375	472,852	16,477
Miscellaneous	80,500	80,500	26,562	(53,938)
Total revenues	966,437	966,437	969,680	3,243
Expenditures				
Current:				
Transportation	4,803,771	4,803,771	4,233,925	569,846
Capital outlay	179,300	179,300	176,696	2,604
Total expenditures	4,983,071	4,983,071	4,410,621	572,450
Excess of revenues over (under) expenditures	<u>(4,016,634)</u>	<u>(4,016,634)</u>	<u>(3,440,941)</u>	<u>575,693</u>
Other financing sources (uses)				
Transfers in	4,171,000	4,171,000	3,700,000	(471,000)
Total other financing sources (uses)	<u>4,171,000</u>	<u>4,171,000</u>	<u>3,700,000</u>	<u>(471,000)</u>
Net change in fund balance	154,366	154,366	259,059	104,693
Fund balances - beginning	<u>135,056</u>	<u>353,565</u>	<u>356,511</u>	<u>2,946</u>
Fund balances - ending	<u>\$ 289,422</u>	<u>\$ 507,931</u>	<u>\$ 615,570</u>	<u>\$ 107,639</u>

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Changes in Total OPEB Liability and Related Ratios
Gig Harbor LEOFF1 OPEB Plan
For the year ended December 31, 2018
Last 10 Fiscal Years*

	<u>2018</u>
Total OPEB liability - beginning	\$ 2,168,093
Service cost	-
Interest	76,554
Changes in benefit terms	-
Differences between expected and actual experience	(98,386)
Changes of assumptions	-
Benefit payments	(59,966)
Other changes	-
Total OPEB liability - ending	<u><u>\$ 2,086,295</u></u>
Covered-employee payroll**	\$ -
Total OPEB liability as a % of covered payroll	NA

Notes to Schedule:

* Until a full 10-year trend is compiled, only information for those years available is presented.
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

** Covered-employee payroll is the payroll of employees that are provided with
OPEB through the OPEB plan (GASB 75, par. 246)

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2018
Last 10 Fiscal Years*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Employer's proportion of the net pension liability (asset)	<u>0.047694%</u>	<u>0.047273%</u>	<u>0.047672%</u>	<u>0.048376%</u>	<u>0.048412%</u>
Employer's proportionate share of the net pension liability	<u>2,402,608</u>	<u>2,472,818</u>	<u>2,560,211</u>	<u>2,295,479</u>	<u>2,162,096</u>
TOTAL	<u>2,402,608</u>	<u>2,472,818</u>	<u>2,560,211</u>	<u>2,295,479</u>	<u>2,162,096</u>
Employer's covered employee payroll	<u>5,291,050</u>	<u>5,490,664</u>	<u>5,977,738</u>	<u>6,102,114</u>	<u>6,563,520</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	<u>45.41%</u>	<u>45.04%</u>	<u>42.83%</u>	<u>37.62%</u>	<u>32.94%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>61.19%</u>	<u>59.10%</u>	<u>57.03%</u>	<u>61.24%</u>	<u>63.22%</u>

** Until a full 10-year trend is compiled, information is presented only for those years for which information is available.*

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2018
Last 10 Fiscal Years*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Employer's proportion of the net pension liability (asset)	<u>0.061406%</u>	<u>0.061119%</u>	<u>0.061113%</u>	<u>0.062254%</u>	<u>0.062178%</u>
Employer's proportionate share of the net pension liability	<u>1,241,237</u>	<u>2,183,817</u>	<u>3,076,991</u>	<u>2,163,029</u>	<u>1,061,634</u>
TOTAL	<u>1,241,237</u>	<u>2,183,817</u>	<u>3,076,991</u>	<u>2,163,029</u>	<u>1,061,634</u>
Employer's covered employee payroll	<u>5,291,050</u>	<u>5,490,664</u>	<u>5,977,738</u>	<u>6,102,114</u>	<u>6,563,520</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	<u>23.46%</u>	<u>39.77%</u>	<u>51.47%</u>	<u>35.45%</u>	<u>16.17%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>93.29%</u>	<u>89.20%</u>	<u>85.82%</u>	<u>90.97%</u>	<u>95.77%</u>

** Until a full 10-year trend is compiled, information is presented only for those years for which information is available.*

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2018
Last 10 Fiscal Years*

	2014	2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	0.006248%	0.006300%	0.006368%	0.006458%	0.006912%
Employer's proportionate share of the net pension liability (asset)	(75,775)	(75,929)	(65,609)	(97,982)	(125,487)
TOTAL	(75,775)	(75,929)	(65,609)	(97,982)	(125,487)
Employer's covered employee payroll	-	-	-	-	-
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	126.91%	127.36%	123.74%	135.96%	144.42%

** Until a full 10-year trend is compiled, information is presented only for those years for which information is available.*

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2018
Last 10 Fiscal Years*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Employer's proportion of the net pension liability (asset)	<u>0.051019%</u>	<u>0.052564%</u>	<u>0.053612%</u>	<u>0.054039%</u>	<u>0.060586%</u>
Employer's proportionate share of the net pension liability (asset)	<u>(677,044)</u>	<u>(540,253)</u>	<u>(311,823)</u>	<u>(749,886)</u>	<u>(1,230,028)</u>
State's proportionate share of the net pension liability (asset) associated with the employer	<u>(408,164)</u>	<u>(357,216)</u>	<u>(203,286)</u>	<u>(486,437)</u>	<u>(796,420)</u>
TOTAL	<u>(1,085,208)</u>	<u>(897,469)</u>	<u>(515,109)</u>	<u>(1,236,323)</u>	<u>(2,026,448)</u>
Employer's covered employee payroll	<u>1,462,846</u>	<u>1,566,117</u>	<u>1,612,202</u>	<u>1,694,021</u>	<u>2,004,677</u>
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	<u>74.18%</u>	<u>57.31%</u>	<u>31.95%</u>	<u>72.98%</u>	<u>101.09%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>116.75%</u>	<u>111.67%</u>	<u>106.04%</u>	<u>113.36%</u>	<u>118.50%</u>

** Until a full 10-year trend is compiled, information is presented only for those years for which information is available.*

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Employer Contributions
PERS 1
As of December 31, 2018
Last 10 Fiscal Years*

	2014	2015	2016	2017	2018
Statutorily or contractually required contributions	206,532	239,502	285,061	294,277	318,975
Contributions in relation to the statutorily or contractually required contributions	(206,532)	(239,502)	(285,061)	(294,277)	(318,975)
Contribution deficiency (excess)	-	-	-	-	-
Covered employer payroll	5,291,050	5,490,664	5,977,738	6,021,538	6,563,519
Contributions as a percentage of covered employee payroll	3.90%	4.36%	4.77%	4.89%	4.86%

** Until a full 10-year trend is compiled, information is presented only for those years for which information is available.*

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2018
Last 10 Fiscal Years*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Statutorily or contractually required contributions	207,599	315,640	372,490	409,307	492,102
Contributions in relation to the statutorily or contractually required contributions	(207,599)	(315,640)	(372,490)	(409,307)	(492,102)
Contribution deficiency (excess)	-	-	-	-	-
Covered employer payroll	5,291,050	5,490,664	5,977,738	6,021,538	6,563,519
Contributions as a percentage of covered employee payroll	3.92%	5.75%	6.23%	6.80%	7.50%

** Until a full 10-year trend is compiled, information is presented only for those years for which information is available.*

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2018

City of Gig Harbor
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2018
Last 10 Fiscal Years*

	2014	2015	2016	2017	2018
Statutorily or contractually required contributions	73,874	79,240	81,416	91,960	98,216
Contributions in relation to the statutorily or contractually required contributions	(73,874)	(79,240)	(81,416)	(91,960)	(98,216)
Contribution deficiency (excess)	-	-	-	-	-
Covered employer payroll	1,462,846	1,566,117	1,612,202	1,775,632	2,004,677
Contributions as a percentage of covered employee payroll	5.05%	5.06%	5.05%	5.18%	4.90%

** Until a full 10-year trend is compiled, information is presented only for those years for which information is available.*

CITY OF GIG HARBOR
Supplementary Information
For the Year Ended December 31, 2018

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

	<u>2018</u>
Operating revenues:	
Charges for sales and services:	
Water sales	\$ 2,259,157
Sewer charges	5,331,073
Connection fees	4,161,118
Other fees and charges	130,879
Utility taxes	269,454
Total operating revenues	<u>12,151,681</u>
Operating expenses:	
Operations and maintenance	3,578,546
Administration	1,212,696
Utility taxes	250,427
Total operating expenses	<u>5,041,669</u>
Operating income (loss)	<u>7,110,012</u>
Nonoperating revenues (expenses):	
Investment interest revenue	351,391
Intergovernmental and grants	184,768
Gain on sale of capital assets	14,802
Total nonoperating revenues (expenses)	<u>550,961</u>
Revenue Available for Debt Service	<u>\$ 7,660,973</u>
Maximum principal and interest due in succeeding years	\$ 2,009,441
Coverage	3.81x
Number of utility customers, as of December 31, 2018:	
Sewer	3,213
Water	2,915

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov