



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Gig Harbor

For the period January 1, 2020 through December 31, 2020

Published January 31, 2022

Report No. 1029792



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

January 31, 2022

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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, 2020 through December 31, 2020

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, 2020, 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 24, 2022.

As discussed in Note 1 to the financial statements, in 2020 the City began reporting the Gig Harbor Transportation Benefit District as part of its reporting entity.

As discussed in Note 13 to the financial statements, the 2019 financial statements have been restated to correct a misstatement.

As discussed in Note 14 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown.

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.



Pat McCarthy, State Auditor

Olympia, WA

January 24, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Gig Harbor January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

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.

Opinions

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, 2020, 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 2020 the City began reporting the Gig Harbor Transportation Benefit District as part of its reporting entity. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the financial statements, the 2019 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. 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 9 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 24, 2022 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 24, 2022

FINANCIAL SECTION

City of Gig Harbor January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Activities – 2020

Governmental Funds Balance Sheet – 2020

Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental
Funds – 2020

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental
Funds – 2020

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Statement of Activities – 2020

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Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds –
2020

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– General Fund – 2020

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
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Schedule of Changes in Total OPEB Liability and Related Ratios – 2020

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,
LEOFF 1, LEOFF 2 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2020

SUPPLEMENTARY AND OTHER INFORMATION

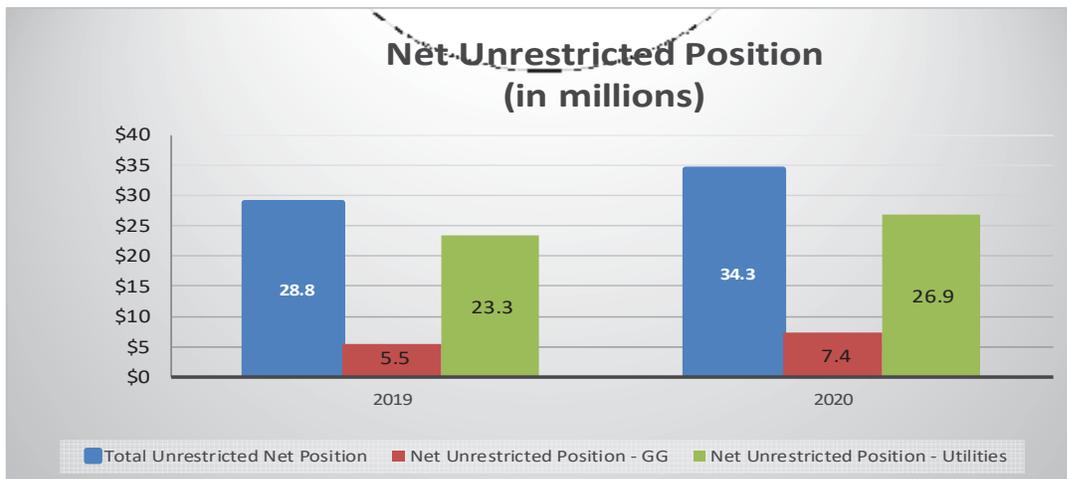
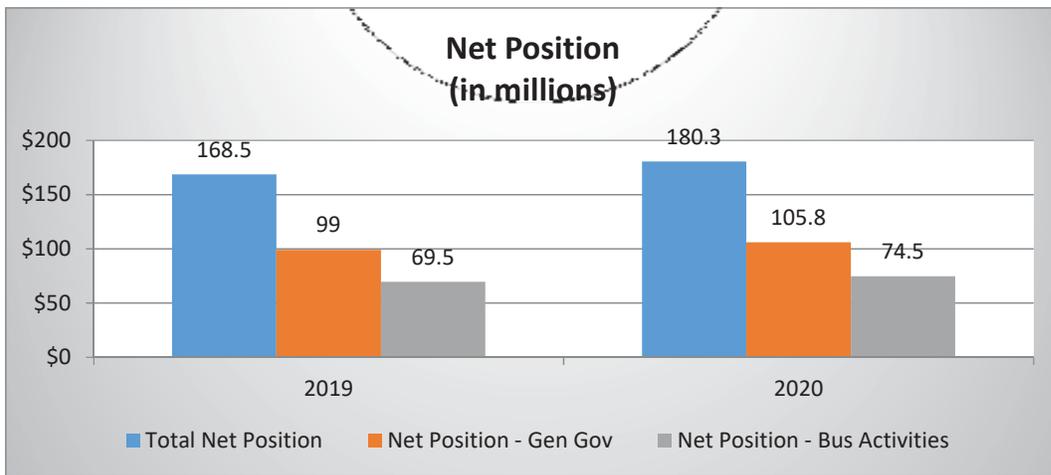
Parity Bond Debt Service Coverage – 2020

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

This discussion and analysis provide an overview of the City of Gig Harbor's annual financial report for the fiscal year ended December 31, 2020. 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 \$180.3 million. This is a \$11.8 million or seven percent increase over the prior year.
- Net unrestricted position increased in 2020 to \$34.3 million.



- Net investment in capital assets increased from \$127.7 million to \$129.8 million.

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

- Net capital assets decreased from \$158.2 million to \$156.9 million. This is due to the decline in activity related to COVID-19 shut-downs.
- City-wide tax revenues in 2020 were \$17.6 million. This is due to inclusion of Transportation Benefit District sales taxes received June through December 2020.
- Cash and investments of \$52.7 million are up from \$44.1 million in 2019. This is a \$8.6 million increase from the prior year. Governmental activities account for \$25.6 million of year-end cash and investments while business-type activities account for the remaining balance of \$27.1 million.
- City-wide short-term liabilities (due in 2021, excluding short-term portion of long-term debt) are \$1.9 million.
- The city has total liabilities of \$36.3 million of which \$32.6 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, liabilities, and deferred inflows/outflows of resources, 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, 2020**

(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 20 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, Senior Services and Pedestrian Safety funds are consolidated into the general fund for reporting purposes*), Street Operating, Street Capital, Park Development, Hospital Benefit Zone (HBZ) Revenue and LTGO Bond Redemption 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 with the basic financial statements in the required supplementary information section.

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

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

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

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

Government-wide Financial Analysis

General governmental activities

At year-end, the city's net position (assets plus deferred outflows of resources minus liabilities and deferred inflows of resources) was \$180.3 million. Governmental activities make up \$105.8 million of this balance while the city's business-type activities (water/sewer and storm) own the remaining balance of \$74.5 million. This is a seven percent increase from 2019 and reflects the continuing growth occurring in Gig Harbor and the surrounding area.

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 (\$129.8 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, 2020, \$16.1 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 \$1.3 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 \$34.3 million at 12/31/2020. This is an increase of \$5.5 million from 2019.

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Assets						
Current and other assets	\$ 27,879,740	\$ 23,089,804	\$ 30,256,874	\$ 26,937,530	\$ 58,136,614	\$ 50,027,334
Capital assets, net	88,776,248	89,633,985	68,079,485	68,582,461	156,855,733	158,216,446
Net pension asset	1,254,885	1,467,092	-	-	1,254,885	1,467,092
Total assets	117,910,873	114,190,881	98,336,359	95,519,991	216,247,232	209,710,872
Deferred charge on refunding	-	-	453,759	499,135	453,759	499,135
Deferred outflows related to pension	700,121	593,299	256,346	117,272	956,467	710,571
Deferred outflow of resources	700,121	593,299	710,105	616,407	1,410,226	1,209,706
Liabilities						
Other liabilities	2,895,246	3,962,065	794,945	666,398	3,690,191	4,628,463
Long-term liabilities	9,142,630	10,475,860	23,501,250	25,460,748	32,643,880	35,936,608
Total liabilities	12,037,876	14,437,925	24,296,195	26,127,146	36,334,071	40,565,071
Deferred inflows related to pensions	757,555	1,395,896	302,702	481,282	1,060,257	1,877,178
Deferred inflow of resources	757,555	1,395,896	302,702	481,282	1,060,257	1,877,178
Net position						
Net investment in capital assets	83,711,096	82,963,551	46,129,672	44,762,640	129,840,768	127,726,191
Restricted	14,693,465	10,499,427	1,435,245	1,426,466	16,128,710	11,925,893
Unrestricted	7,411,002	5,487,381	26,882,650	23,338,864	34,293,652	28,826,245
Total net position	\$ 105,815,563	\$ 98,950,359	\$ 74,447,567	\$ 69,527,970	\$ 180,263,130	\$ 168,478,329

City-wide governmental operating revenues (general revenues plus program revenues excluding grants and contributions) increased from \$20.1 million in 2019 to \$21.7 million in 2020.

Capital grants and contributions decreased from \$1.0 million in 2019 to \$289,000 in 2020.

General government expenses increased from \$14.2 million in 2019 to \$16.1 million in 2020.

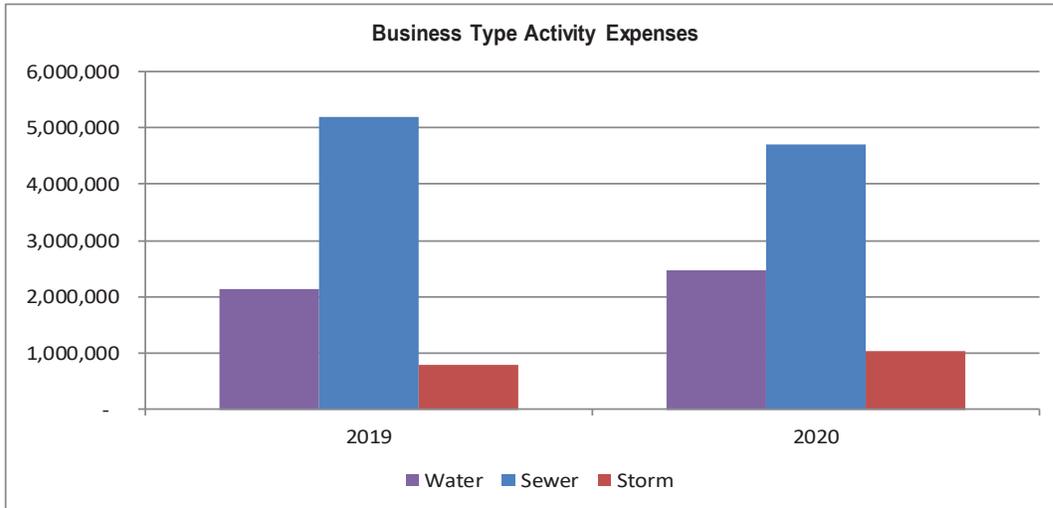
Business activities

Total net position for the city's business-type activities (Water/Sewer and Storm) ended the year at \$74.4 million. This is a \$4.9 million increase over the prior year.

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

City of Gig Harbor business-type charges for services revenues were \$9.1 million. This is a \$500,000 decrease from 2019 charges for services of \$9.6 million. This is due to the rate forgiveness program related to the Covid outbreak and related shut down.

Operating expenses for city-wide business activities increased slightly from \$8.1 million in 2019 to \$8.2 million in 2020.



The largest portion of the business-type activities net position (\$46.1 million) is accounted for in the net investment in capital assets category.

Restricted net position in the business-type activities is \$1.4 million. The restriction is due to revenue bond covenants for debt service on the outstanding revenue bonds. The remaining balance of net position in the amount of \$26.9 million is unrestricted.

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

**Table 2
Changes in net position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Program revenues						
Charges for services	\$ 3,822,303	\$ 3,227,537	\$ 9,103,142	\$ 9,561,772	\$ 12,925,445	\$ 12,789,309
Operating grants/contributions	937,766	546,031	37,246	200,767	975,012	746,798
Capital grants/contributions	288,853	1,033,111	3,761,541	3,015,523	4,050,394	4,048,634
General revenues						
Sales and use tax	10,982,145	9,226,854	-	-	10,982,145	9,226,854
Property tax	3,318,616	3,241,995	-	-	3,318,616	3,241,995
Other taxes	3,299,124	3,765,721	-	-	3,299,124	3,765,721
Other revenues	276,016	607,454	248,561	524,133	524,577	1,131,587
Total revenues	\$ 22,924,823	\$ 21,648,703	\$ 13,150,490	\$ 13,302,195	\$ 36,075,313	\$ 34,950,898
Program expenses						
Judicial	492,839	435,082	-	-	492,839	435,082
General government	3,518,782	2,802,415	-	-	3,518,782	2,802,415
Public safety	3,963,045	3,559,566	-	-	3,963,045	3,559,566
Physical Environment/Utilities	9,949	9,707	8,214,064	8,094,219	8,224,013	8,103,926
Transportation	3,697,042	3,081,428	-	-	3,697,042	3,081,428
Economic Environment	2,208,421	2,017,719	-	-	2,208,421	2,017,719
Culture & Recreation	1,911,908	2,020,436	-	-	1,911,908	2,020,436
Interest on long-term debt	279,122	269,761	-	-	279,122	269,761
Total Expenses	16,081,107	14,196,114	8,214,064	8,094,219	24,295,171	22,290,333
Transfers	-	-	-	-	-	-
Increase in net position	\$ 6,843,716	\$ 7,452,589	\$ 4,936,426	\$ 5,207,976	\$ 11,780,142	\$ 12,660,565
Net position, January 1	98,950,359	90,663,281	69,527,970	64,291,723	168,478,329	154,955,004
Prior period adjustment	21,488	834,489	(16,829)	28,271	4,659	862,760
Net position, December 31	\$ 105,815,563	\$ 98,950,359	\$ 74,447,567	\$ 69,527,970	\$ 180,263,130	\$ 168,478,329

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

At the end of 2020, the city's governmental funds had a combined ending fund balance of \$25.0 million. This is a \$5.9 million increase over 2019.

General governmental revenues were \$22.8 million in 2020, a slight increase from 2019, the difference mostly being federal funding received under the Cares Act.

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

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 25.0 million. Of the total ending governmental fund balances, \$10.7 million belongs to the General fund. Of the remaining major funds, the largest portion of ending fund balance (\$5.2 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 \$8.4 million. Virtually all of this balance is restricted for capital projects, debt service, public safety and economic development.

General fund revenues increased from \$15.0 to \$15.3 million in 2020, while expenditures increased from \$10.4 to \$11.0 million for the same period.

The table below shows a comparison of expenditures by function.

	2019	2020	Increase / (Decrease)
Judicial	\$ 477,410	\$ 477,755	\$ 345
General government	2,884,903	3,168,470	283,567
Security of persons and property	3,743,635	3,989,352	245,717
Physical environment	9,707	9,949	242
Economic environment	1,983,910	1,914,655	(69,255)
Mental and physical health	2,842	3,162	320
Culture and recreation	1,031,516	1,119,088	87,572
Capital outlay	255,282	337,435	82,153
	\$ 10,389,205	\$ 11,019,866	\$ 630,661

The largest increases are under general government and security of persons and property functions. The increases are due to filling of full-time positions in both administration and police that were open and unfilled in 2019.

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, 2020**

The city's remaining major funds: Street Operating, Street Capital, Park Development, HBZ Revenue and LTGO Bond Redemption 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 \$396,000 in total expenditures in order to provide funding for a project that ultimately did not occur.

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 \$74.5 million at year-end (Water/Sewer - \$67.2 million & Storm - \$7.3 million). Of this amount, \$26.9 million is unrestricted and available to meet future obligations. The utility also has \$1.4 million restricted for revenue bond debt service.

Water and sewer monthly (billed bi-monthly) revenues decreased to \$8.0 million in 2020 down from \$8.5 million in 2019. This was due to the rate forgiveness program in which one month's base utility charge was forgiven. General facilities charges (connection fees) for water and sewer were \$3.1 million. Storm sewer revenues for monthly service and system connections were \$1.1 million and \$642,000 respectively.

Water & sewer operating expenses were \$6.7 million. This is a \$200,000 increase over 2019.

Capital Asset and Debt administration

Capital assets.

The City of Gig Harbor's net capital assets for governmental and business-type activities as of December 31, 2020 total \$156.9 million. The city's governmental activities own \$88.8 million of this total and the Water-Sewer-Storm system owns \$68.1 million of the total. Capital assets are land and related land improvements, buildings and park facilities, machinery and equipment, streets and utility infrastructure.

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

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

**City of Gig Harbor
Management Discussion and Analysis
December 31, 2020**

Long-term debt.

The city has the following types of debt outstanding at December 31, 2020; 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 2015 and 2017. Through this program, the city borrowed \$283,131 in 2015 and \$336,038 in 2017 for the purchase of vehicles and equipment.

At fiscal year-end the city had \$25,992,037 in outstanding long-term debt, not including premiums of \$1,477,273 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	
	2020	2019	2020	2019	2020	2019
LTGO bonds	\$ 3,269,027	\$ 5,066,532	\$ -	\$ -	\$ 3,269,027	\$ 5,066,532
UTGO bonds	970,000	1,191,000	-	-	970,000	1,191,000
Promissory Note	625,000	1,250,000	-	-	625,000	1,250,000
Water/Sewer Revenue bonds	-	-	14,803,594	15,875,927	14,803,594	15,875,927
PWTF	-	-	7,546,202	8,351,523	7,546,202	8,351,523
Certificates of Participation	201,125	312,206	54,362	177,696	255,487	489,902
Total	\$ 5,065,152	\$ 7,819,738	\$22,404,158	\$24,405,146	\$27,469,310	\$32,224,884

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, 2020**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 25,503,192	\$ 27,174,490	\$ 52,677,682
Receivables			
Taxes	2,314,028	-	2,314,028
Accounts and contracts	62,520	1,385,413	1,447,933
Interfund loan receivable	-	1,696,971	1,696,971
Capital assets not being depreciated			
Land	24,669,246	848,333	25,517,579
Construction in progress	4,425,172	3,098,072	7,523,244
Capital assets net of accumulated depreciation:			
Buildings	9,142,737	24,645,279	33,788,016
Improvements other than buildings	16,799,451	19,328,447	36,127,897
Machinery and equipment	649,969	701,855	1,351,824
Infrastructure	33,089,674	19,457,499	52,547,172
Net pension asset	1,254,885	-	1,254,885
Total assets	117,910,873	98,336,359	216,247,232
Deferred outflows of resources			
Deferred charge on refunding	-	453,759	453,759
Deferred outflows related to pensions/OPEB	700,121	256,346	956,467
Total deferred outflows of resources	700,121	710,105	1,410,226
Liabilities			
Accounts payable	1,045,148	655,974	1,701,122
Other Payables	153,127	-	153,127
Bond interest payable	-	138,971	138,971
Interfund loan payable	1,696,971	-	1,696,971
Noncurrent liabilities:			
Due within one year	1,479,819	1,807,043	3,286,862
Due in more than one year	4,315,219	20,866,026	25,181,245
Total OPEB Liability	1,996,350	-	1,996,350
Net pension liability	1,351,243	828,181	2,179,424
Total liabilities	12,037,876	24,296,195	36,334,071
Deferred inflows of resources			
Deferred inflows related to pensions	757,555	302,702	1,060,257
Total deferred inflows of resources	757,555	302,702	1,060,257
Net position			
Net investment in capital assets	83,711,096	46,129,672	129,840,768
Restricted for:			
Capital acquisition	12,251,100	-	12,251,100
Debt service	291,301	1,435,245	1,726,546
Pensions	1,254,885	-	1,254,885
Other	1,027,315	-	1,027,315
Unrestricted	7,279,866	26,882,650	34,162,516
Total net position	\$ 105,815,563	\$ 74,447,567	\$ 180,263,130

The accompanying notes are an integral part of these statements.

**City of Gig Harbor
Statement of Activities
Year Ended December 31, 2020**

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	\$ 492,839	\$ 172,439	\$ -	\$ -	\$ (320,400)	\$ -	\$ (320,400)
General government	3,518,782	357,665	487,770	9,650	(2,663,697)	-	(2,663,697)
Public safety	3,963,045	-	236,716	36,125	(3,690,204)	-	(3,690,204)
Physical environment/utilities	9,949	-	-	-	(9,949)	-	(9,949)
Transportation	3,697,042	1,593,844	213,280	198,462	(1,691,456)	-	(1,691,456)
Economic environment	2,208,421	1,473,461	-	-	(734,960)	-	(734,960)
Culture & recreation	1,911,908	224,894	-	44,616	(1,642,398)	-	(1,642,398)
Interest on long-term debt	279,122	-	-	-	(279,122)	-	(279,122)
Total governmental activities	16,081,107	3,822,303	937,766	288,853	(11,032,185)	-	(11,032,185)
Business-type activities:							
Water	2,471,054	2,481,651	862	1,363,796	-	1,375,255	1,375,255
Sewer	4,716,169	5,500,925	4,885	1,755,335	-	2,544,976	2,544,976
Storm water	1,026,840	1,120,566	31,499	642,410	-	767,635	767,635
Total business-type activities	8,214,064	9,103,142	37,246	3,761,541	-	4,687,865	4,687,865
Total government	\$ 24,295,171	\$ 12,925,445	\$ 975,012	\$ 4,050,394	\$ (11,032,185)	\$ 4,687,865	\$ (6,344,320)
General revenues:							
Taxes:							
Property taxes					\$ 3,318,616	\$ -	\$ 3,318,616
Retail sales taxes					10,982,145	-	10,982,145
Business taxes					1,621,342	-	1,621,342
Excise & other taxes					1,677,782	-	1,677,782
Miscellaneous - incl. investment earnings					276,016	248,561	524,577
Total general revenues					17,875,901	248,561	18,124,462
Change in net position					6,843,716	4,936,426	11,780,142
Net position - beginning					98,950,359	69,527,970	168,478,329
Net position - ending					21,488	(16,829)	4,659
Net position - ending					\$ 105,815,563	\$ 74,447,567	\$ 180,263,130

The accompanying notes are an integral part of these statements.

**City of Gig Harbor
Governmental Funds
Balance Sheet
December 31, 2020**

	General	Street Operating	Street Capital	Park Development	HBZ Revenue	LTGO Bond Redemption	Other Governmental	Governmental Fund Total
Assets								
Cash and cash equivalents	\$ 9,650,172	\$ 1,296,991	\$ 449,066	\$ 919,541	\$ 5,166,036	\$ 78,569	\$ 7,942,817	\$ 25,503,192
Accounts receivable	1,806,594	-	-	-	-	-	507,434	2,314,028
Taxes	61,541	679	-	-	-	-	300	62,520
Accounts and contracts								
Total assets	11,518,307	1,297,670	449,066	919,541	5,166,036	78,569	8,450,551	27,879,740
Deferred outflows of resources	-	-	-	-	-	-	-	-
Liabilities and fund balance								
Liabilities:								
Accounts payable	664,431	69,447	60,200	205,141	-	-	45,929	1,045,148
Interfund loan payable	-	-	-	-	-	1,696,971	-	1,696,971
Other Payables	116,694	-	19,179	17,254	-	-	-	153,127
Total liabilities	781,125	69,447	79,379	222,395	-	1,696,971	45,929	2,895,246
Deferred inflows of resources								
Property taxes	9,374	-	-	-	-	-	942	10,316
Total deferred inflows of resources	9,374	-	-	-	-	-	942	10,316
Fund balances:								
Restricted for:								
Debt service	-	-	-	-	-	-	291,301	291,301
Capital projects	-	-	-	-	5,166,036	-	7,085,064	12,251,100
Economic development	-	-	-	-	-	-	996,496	996,496
Public safety	-	-	-	-	-	-	30,819	30,819
Assigned to:								
Debt service	1,592,805	-	-	-	-	-	-	1,592,805
Parks	-	-	-	697,146	-	-	-	697,146
Streets	215,027	1,228,223	369,687	-	-	-	-	1,812,937
Other purposes	2,278,160	-	-	-	-	-	-	2,278,160
Unassigned	6,641,816	-	-	-	-	(1,618,402)	-	5,023,414
Total fund balances	10,727,808	1,228,223	369,687	697,146	5,166,036	(1,618,402)	8,403,680	24,974,178
Total liabilities, deferred inflows of resources and fund balances	\$ 11,518,307	\$ 1,297,670	\$ 449,066	\$ 919,541	\$ 5,166,036	\$ 78,569	\$ 8,450,551	\$ 27,879,740

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, 2020**

Total fund balance of governmental funds: \$ 24,974,178

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	\$	24,669,246
Buildings and structures		14,469,772
Infrastructure		44,930,468
Improvements		27,281,729
Machinery and equipment		3,697,249
Construction in progress		4,425,172

Less: accumulated depreciation \$ (30,697,387) 88,776,248

Net pension asset is not reported in governmental funds 1,254,885

Deferred outflows - pensions and OPEB are not reported in governmental funds 700,121

Deferred inflows - pensions are not reported in governmental funds (757,555)

Deferred inflows - property taxes are only reported in governmental funds 10,316

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. (9,142,630)

Net position of governmental activities \$ 105,815,563

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, 2020**

	General	Street Operating	Street Capital	Park Development	Hospital/Benefit Zone Revenue	LTGO Bond Redemption	Other Governmental	Total
Revenues								
Taxes	\$ 12,425,056	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 3,174,829	\$ 17,599,885
Licenses and permits	1,524,684	19,600	-	-	-	-	-	1,544,284
Intergovernmental revenues	698,172	213,149	198,593	33,230	-	-	-	1,143,144
Charges for services	254,291	113,168	-	-	-	-	1,700,345	2,067,804
Fines and forfeits	82,396	-	-	-	-	-	9,278	91,674
Miscellaneous	288,199	14,465	4,232	11,222	23,610	608	40,344	382,680
Total revenues	15,272,798	360,382	202,825	44,452	2,023,610	608	4,924,796	22,829,471
Expenditures								
Current:								
Judicial	477,755	-	-	-	-	-	-	477,755
General government	3,168,470	-	-	-	-	-	-	3,168,470
Security of persons and property	3,989,352	-	-	-	-	-	1,758	3,991,110
Physical environment	9,949	-	-	-	-	-	-	9,949
Transportation	-	1,778,712	-	-	-	-	-	1,778,712
Economic environment	1,914,655	-	-	-	-	-	235,585	2,150,240
Mental and physical health	3,162	-	-	-	-	-	-	3,162
Culture and recreation	1,119,088	-	-	-	-	-	-	1,119,088
Debt service:								
Principal	-	-	-	-	-	1,337,220	221,000	1,558,220
Interest and other debt service costs	-	-	-	-	-	281,110	45,139	326,249
Capital outlay	337,435	53,117	1,222,034	818,389	-	-	-	2,430,975
Total expenditures	11,019,866	1,831,829	1,222,034	818,389	-	1,618,330	503,482	17,013,930
Excess of revenues over (under) expenditures	4,252,932	(1,471,447)	(1,019,209)	(773,937)	2,023,610	(1,617,722)	4,421,314	5,815,541
Other financing sources (uses)								
Capital asset disposal	28,052	1,938	-	-	-	-	-	29,990
Debt Proceeds	-	-	-	-	-	-	-	-
Transfers in	215,000	1,500,000	794,500	693,600	-	2,630,579	-	5,833,679
Transfers out	(3,367,793)	-	(215,000)	-	(206,200)	-	(2,044,686)	(5,833,679)
Total other financing sources and uses	(3,124,741)	1,501,938	579,500	693,600	(206,200)	2,630,579	(2,044,686)	29,990
Net change in fund balance	1,128,191	30,491	(439,709)	(80,337)	1,817,410	1,012,857	2,376,628	5,845,531
Fund balance at beginning of year	9,570,989	1,197,732	354,633	322,720	3,348,626	(1,714,593)	6,027,052	19,107,159
Prior period adjustment	28,628	-	454,763	454,763	-	(916,666)	-	21,488
Fund balance at end of year	\$ 10,727,808	\$ 1,228,223	\$ 369,687	\$ 697,146	\$ 5,166,036	\$ (1,618,402)	\$ 8,403,680	\$ 24,974,178

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, 2020**

Net change in fund balance - total governmental funds \$ 5,845,531

*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	2,430,975	
Less current year depreciation	<u>(3,115,233)</u>	(684,258)

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	-	
Principal payments	<u>1,558,220</u>	1,558,220

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>124,222</u>	124,222
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Change in net position of governmental activities \$ 6,843,716

The accompanying notes are an integral part of these statements.

**City of Gig Harbor
Statement of Net Position
Proprietary Funds
December 31, 2020**

Assets	Water-Sewer Utility	Storm Sewer Operating	Total
Current assets:			
Cash and cash equivalents	\$ 21,676,770	\$ 4,062,475	\$ 25,739,245
Accounts and contracts	1,126,083	259,330	1,385,413
Advances To (From) Other Funds	1,696,971	-	1,696,971
Total current assets	<u>24,499,824</u>	<u>4,321,805</u>	<u>28,821,629</u>
Noncurrent assets:			
Restricted cash and investments:			
Cash and cash equivalents	1,435,245	-	1,435,245
Land	848,333	-	848,333
Buildings	36,711,755	-	36,711,755
Improvements other than buildings	47,618,711	4,070,715	51,689,426
Machinery and equipment	1,816,729	703,139	2,519,868
Construction in progress	2,187,230	910,842	3,098,072
Less accumulated depreciation	<u>(24,306,629)</u>	<u>(2,481,340)</u>	<u>(26,787,969)</u>
Capital assets, net of accumulated depreciation	64,876,129	3,203,356	68,079,485
Total noncurrent assets	<u>66,311,374</u>	<u>3,203,356</u>	<u>69,514,730</u>
Total assets	<u>90,811,198</u>	<u>7,525,161</u>	<u>98,336,359</u>
Deferred outflows of resources			
Deferred charge on refunding	453,759	-	453,759
Deferred outflows related to pensions	212,767	43,579	256,346
Total deferred outflows of resources	<u>666,526</u>	<u>43,579</u>	<u>710,105</u>
Liabilities			
Current liabilities:			
Accounts payable	631,483	24,491	655,974
Matured revenue bonds payable	1,758,699	21,394	1,780,093
Revenue bond interest payable	138,971	-	138,971
Compensated absences payable	21,796	5,154	26,950
Total current liabilities	<u>2,550,949</u>	<u>51,039</u>	<u>2,601,988</u>
Noncurrent Liabilities:			
Compensated absences payable	196,161	46,386	242,547
Net pension liability	687,390	140,791	828,181
Revenue bonds payable (net of unamortized premium)	20,597,923	25,556	20,623,479
Total noncurrent liabilities	<u>21,481,474</u>	<u>212,733</u>	<u>21,694,207</u>
Total liabilities	<u>24,032,423</u>	<u>263,772</u>	<u>24,296,195</u>
Deferred inflows of resources			
Deferred inflows related to pensions	251,243	51,459	302,702
Total deferred inflows of resources	<u>251,243</u>	<u>51,459</u>	<u>302,702</u>
Net position			
Net investment in capital assets	42,973,266	3,156,406	46,129,672
Restricted for debt service	1,435,245	-	1,435,245
Unrestricted	22,785,547	4,097,103	26,882,650
Total net position	<u>\$ 67,194,058</u>	<u>\$ 7,253,509</u>	<u>\$ 74,447,567</u>

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, 2020

	<u>Water-Sewer Utility</u>	<u>Storm Sewer Operating</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 2,473,351	\$ -	\$ 2,473,351
Sewer charges	5,489,167	-	5,489,167
Storm sewer charges	-	1,117,432	1,117,432
Other fees and charges	20,058	3,134	23,192
Total operating revenues	<u>7,982,576</u>	<u>1,120,566</u>	<u>9,103,142</u>
Operating expenses:			
Operations and maintenance	3,039,676	396,872	3,436,548
Administration	1,429,171	398,235	1,827,406
Depreciation	2,033,611	203,707	2,237,318
Utility taxes	234,410	28,693	263,103
Total operating expenses	<u>6,736,868</u>	<u>1,027,507</u>	<u>7,764,375</u>
Operating income (loss)	<u>1,245,708</u>	<u>93,059</u>	<u>1,338,767</u>
Nonoperating revenues (expenses):			
Connection charges	3,119,131	642,410	3,761,541
Intergovernmental revenue	5,747	31,499	37,246
Investment earnings	225,089	24,266	249,355
Interest expense	(463,735)	(667)	(464,402)
Other debt service expense	(874)	-	(874)
Gain/(Loss) on sale of capital assets	14,793	-	14,793
Total nonoperating revenues (expenses)	<u>2,900,151</u>	<u>697,508</u>	<u>3,597,659</u>
Income Before Contributions and Transfers	<u>4,145,859</u>	<u>790,567</u>	<u>4,936,426</u>
Changes in net position	<u>4,145,859</u>	<u>790,567</u>	<u>4,936,426</u>
Total net position-beginning	<u>63,048,199</u>	<u>6,479,771</u>	<u>69,527,970</u>
Prior period adjustment	-	(16,829)	(16,829)
Total net position-ending	<u>\$ 67,194,058</u>	<u>\$ 7,253,509</u>	<u>\$ 74,447,567</u>

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, 2020

	Enterprise Funds		
	Total Water/Sewer Utility	Storm Sewer	Total Enterprise Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 7,937,324	\$ 1,104,614	\$ 9,041,938
Payments to suppliers	(2,708,178)	(381,956)	(3,090,134)
Payments to employees	(2,168,485)	(467,767)	(2,636,252)
Other receipts (payments)	19,894	3,134	23,028
Net cash provided (used) by operating activities	<u>3,080,555</u>	<u>258,025</u>	<u>3,338,580</u>
Cash Flows from Non-capital Financing Activities			
Interfund loan	1,012,549	-	1,012,549
Federal grant	-	31,499	31,499
Net cash provided (used) by non-capital financing activities	<u>1,012,549</u>	<u>31,499</u>	<u>1,044,048</u>
Cash Flows from Capital and Related Financing Activities			
Connection charges	3,119,294	642,410	3,761,704
Acquisition and construction of capital assets	(1,420,225)	(185,275)	(1,605,500)
Principle paid on revenue bond maturities	(1,861,515)	(30,818)	(1,892,333)
Interest paid on revenue bonds	(499,561)	(6,210)	(505,771)
Proceeds from disposition of capital assets	(93,180)	(609)	(93,789)
Net cash provided (used) by capital and related financing activities	<u>(755,187)</u>	<u>419,498</u>	<u>(335,689)</u>
Sale of investments	-	-	-
Interest received from investments	225,089	24,266	249,355
Net cash provided by investing activities	<u>225,089</u>	<u>24,266</u>	<u>249,355</u>
Net increase (decrease) in cash and cash equivalents	<u>3,563,006</u>	<u>733,288</u>	<u>4,296,294</u>
Cash and cash equivalents, beginning	<u>19,549,010</u>	<u>3,329,186</u>	<u>22,878,196</u>
Cash and cash equivalents, ending	<u>\$ 23,112,016</u>	<u>\$ 4,062,474</u>	<u>\$ 27,174,490</u>
Reconciliation of Operating Income to Net Cash			
Provided (Used) by Operating Activities:			
Operating income (loss)	1,245,708	93,059	1,338,767
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,033,611	203,707	2,237,318
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(25,194)	(11,611)	(36,805)
Increase (decrease) in accounts payable	211,427	(18,212)	193,215
(Increase) decrease in pension accounts	(384,997)	(8,918)	(393,915)
Total adjustments	<u>(198,764)</u>	<u>(38,741)</u>	<u>(237,505)</u>
Net cash provided by operating activities	<u>\$ 3,080,555</u>	<u>\$ 258,025</u>	<u>\$ 3,338,580</u>

The city did not participate in any non-cash investing, capital, or financing activities in 2020.

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, 2020

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.

The financial statements of the city have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting entity

The city's financial statements present the City of Gig Harbor and a component unit, the Gig Harbor Transportation Benefit District. Component Units are legally separate organizations for which the City is financially accountable. There are two types of Component Units: Blended and Discretely Presented. A Blended Component Unit's financial information is reported within the City's financial statements as if it were a part of the City. This is because it provides services exclusively to the City. A Discretely Presented Component Unit does not provide services exclusively to the City, and therefore its financial information is reported in a separate column on the City's government-wide financial statements.

The **Gig Harbor Transportation Benefit District (TBD)** is governed by a Board, which is made up of the seven sitting City Council members acting ex officio and independently of their elected position as required by the authorizing law. Though it is legally separated from the City, the TBD is reported as if it was part of the primary government because its sole purpose is to fund construction projects described in the City of Gig Harbor's Transportation Improvement Program which may be amended from time to time. The TBD was formed July 2018 with no related funding. In November 2019 a ballot proposition enacting a 0.2 percent (0.2%) sales tax was approved by the voters, with collections beginning in June 2020. The TBD had no expenditures and \$1,370,857 in sales tax revenue in 2020. The TBD files a separate annual financial report with the Washington State Auditor annually. The TBD is reported as a non-major special revenue fund.

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).

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Franchise fees

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.

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.

- The Civic Center Debt Reserve fund was established to build a debt reserve for the Civic Center bonds that were issued in 2001. The resources accumulated in this fund may be used to retire the refunding debt prior to maturity.
- The Public Art Capital Projects Fund is used to accumulate unspent appropriations of the Arts Commission Project Support Program. The funds accumulated in this fund are used for public art capital projects.
- The Strategic Reserve Fund is used to accumulate resources to take advantage of strategic opportunities as they arise and to insulate the city from revenue fluctuations, economic downturns and other unforeseen events that may occur.
- The Equipment Reserve Fund was established in order to provide the city a method to save for significant purchases.
- The Senior Services Fund was established to provide funding for senior facilities and activities.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

- The Pedestrian Safety Fund was established to provide funding for construction of pedestrian safety facilities such as crosswalks, flashing crosswalks, sidewalks and other pedestrian facilities.

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. 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.

Park Development Fund

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

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.

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.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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.

Transportation Benefit District

This fund accounts for the additional 0.2 percent (0.2%) sales tax enacted by the voters in the November 2019 general election. These funds are authorized for transportation improvement projects.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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.

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 2020 fiscal year.

4. Deficit fund equity

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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, 2020, the treasurer was holding \$52,677,682 in cash on hand and in bank, deposits and short-term investments of surplus cash.

Investments – see Note 4.

Receivables

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

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

Restricted Assets

At December 31, 2020, the restricted assets of the enterprise funds are composed of the following:

Cash & cash equivalents - debt service	\$ 1,435,245
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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.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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 2020 was \$790,651 (general government - \$326,249 and proprietary \$464,402). The City did not have any debt-financed capital projects under construction in 2020; therefore all 2020 interest costs were expensed.

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

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

Compensated Absences

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

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

Other post-employment benefits – See Note 12.

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

Pensions

For purposes of measuring the net pension liability or asset, 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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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.

Resolution 1168, which is dated 12/9/2019 established an interfund loan from the Water-Sewer utility to the LTGO Bond Redemption Fund (The funds were expended through the Street Capital and Park Development funds, while repayment is being accounted for in the LTGO Bond fund). The loan amount was for \$917,000 with a final payment date of 12/31/2029. 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 are reported as restricted, assigned or unassigned.

- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by either federal or state legislation.
- Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted. The authority for assignment of funds is not required to be the government's highest level of decision-making authority. Furthermore, the constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on committed fund balances. The City Council may authorize executive officers to assign fund balances for specific purposes through Council files, ordinances and resolutions.
- Unassigned fund balance is the residual amount of the General Fund not included in the other two categories described above.

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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, 2020, the City’s cash and cash equivalents (including restricted cash and investments) consisted of the following:

Petty cash/change funds	\$	300
Cash in bank checking accounts		1,161,303
Money market account		10,634,016
State Treasurer’s Pool (cash equivalents)		<u>40,882,063</u>
Total Cash and Cash Equivalents	\$	52,677,682

The city’s deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The FDIC insures the first \$250,000 of the City’s deposits. The deposit balances over \$250,000 are insured by the WPDPC.

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

As of December 31, 2020, 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	\$ 40,882,063	\$ 40,882,063	\$ -
Opus Bank money market account	10,634,016	10,634,016	-
Total Investments	\$ 51,516,079	\$ 51,516,079	\$ -

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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, 2020, 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.

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.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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, 2020 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 tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 60 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The city may levy up to \$1.60 per \$1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the property tax rate.

The city's regular levy for collection in 2020 was \$0.94461 per \$1,000 on an assessed valuation of \$3,183,696,181 for a total regular levy of \$3,007,357.

The city's excess levy for payment of the 2005 voted general obligation bonds was \$0.0946 per \$1,000 on an assessed valuation of \$3,171,271,806 for a total levy of \$300,000.

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

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Taxes Collected in Year of Levy

Year	Regular Levy	Excess Levy	Percent Collected in Year of Levy
2020	\$3,007,357	\$300,000	99.3
2019	2,963,318	300,000	99.1
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, 2020 was as follows:

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 306,208
Public Safety	186,223
Transportation	1,855,840
Culture and Recreation	766,962
Total depreciation for governmental activities	\$ 3,115,233

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

Water	\$ 464,068
Sewer	1,569,543
Stormwater	203,707
Total depreciation for business-type activities	\$ 2,237,318

B. Capital asset activity for the year ended December 31, 2020 was as follows:

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Capital asset activity for the year ended December 31, 2020 was as follows:

Governmental Activities Description	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 24,669,246	\$ -	\$ -	\$ 24,669,246
CIP	2,728,307	1,696,865	-	4,425,172
Total non-depreciable assets	27,397,552	1,696,865	-	29,094,417
Depreciable assets				
Buildings	14,448,491	21,281	-	14,469,772
Other Improvements	26,949,400	332,329	-	27,281,729
Machinery & Equipment	3,518,405	207,021	28,177	3,697,249
Infrastructure	44,930,468	-	-	44,930,468
Total depreciable assets	89,846,764	560,631	28,177	90,379,218
Less accumulated depreciation for:				
Buildings	4,886,641	440,394	-	5,327,035
Other Improvements	9,587,607	894,671	-	10,482,278
Machinery & Equipment	2,810,275	265,182	28,177	3,047,280
Infrastructure	10,325,809	1,514,985	-	11,840,794
Total accumulated depreciation	27,610,332	3,115,233	28,177	30,697,387
Total depreciable assets, net	62,236,432	(2,554,602)	-	59,681,830
Governmental activities net capital assets	\$ 89,633,984	\$ (857,737)	\$ -	\$ 88,776,248

Business-type activities Description	Ending Balance	Increase	Decrease	Ending Balance
Land	\$ 848,333	\$ -	\$ -	\$ 848,333
CIP	2,892,953	1,149,522	944,403	3,098,072
Total non-depreciable assets	3,741,287	1,149,522	944,403	3,946,405
Depreciable assets				
Buildings	36,711,755	-	-	36,711,755
Other improvements	22,355,427	1,360,547	-	23,715,974
Machinery & equipment	2,476,675	154,134	111,192	2,519,616
Infrastructure	27,972,910	-	-	27,972,910
Total depreciable assets	89,516,767	1,514,680	111,192	90,920,255
Less accumulated depreciation for:				
Buildings	11,215,224	851,253	-	12,066,476
Other improvements	3,814,422	573,105	-	4,387,527
Machinery & equipment	1,802,057	140,646	124,943	1,817,761
Infrastructure	7,843,097	672,314	-	8,515,412
Total accumulated depreciation	24,674,800	2,237,318	124,943	26,787,175
Total depreciable assets, net	64,841,967	(722,638)	\$ (13,751)	64,133,080
Business-type activities net capital assets	\$ 68,583,254	\$ 426,884	\$ 930,652.27	\$ 68,079,485

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

C. Outstanding active construction projects as of December 31, 2020 total \$252,473.

Note 7 – Pension Plans

The following table represents the aggregate pension amounts for all plans for 2020:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (2,179,424)
Pension assets	1,254,885
Deferred outflows of resources	956,466
Deferred inflows of resources	(1,060,258)
Pension expense/expenditures	\$ (38,698)

State Sponsored Pension Plans

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

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

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

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

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

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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 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September - December 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	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:

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- 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.

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 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.86%	7.90%
September – December 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	

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Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

* For employees participating in JBM, the contribution rate was 19.75%.

The city's actual PERS plan contributions were \$310,532 to PERS Plan 1 and \$513,525 to PERS Plan 2/3 for the year ended December 31, 2020.

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

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

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

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 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 I had no required employer or employee contributions for fiscal year 2020. 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

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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 state contribution rate (expressed as a percentage of covered payroll) was 3.44% in 2020.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – December 2020:		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%

The city's actual contributions to the plan were \$113,306 for the year ended December 31, 2020.

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, 2020, the state contributed \$76,297,643 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$69,089.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

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Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, 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 developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next

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Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

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 was completed to test whether each pension plan’s fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA’s 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 annual investment returns, and considered Capital Market Assumptions (CMA’s) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA’s and their target asset allocation to simulate future investment returns at various future times.

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, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the city’s proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the city’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

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	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$1,854,804	\$ 1,480,814	\$ 1,154,657
PERS 2/3	4,346,937	698,610	(2,305,790)
LEOFF 1	(104,342)	(128,192)	(148,826)
LEOFF 2	\$ (22,305)	\$ (1,126,693)	\$ (2,030,966)

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, 2020, the city reported a total pension liability of \$2,179,424 and a total pension asset of \$1,254,885. The city's proportionate share of the net pension liabilities as follows:

	Liability	Asset
PERS 1	\$ 1,480,814	
PERS 2/3	698,610	
LEOFF 1		\$ 128,192
LEOFF 2		1,126,693
Total Net Pension Liability/Asset	\$ 2,179,424	\$1,254,885

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	\$128,192	\$1,126,693
State's proportionate share of the net pension asset associated with the employer	867,087	720,435
TOTAL	\$995,279	\$1,847,128

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.046555%	0.041943%	(0.004612%)

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PERS 2/3	0.060116%	0.054624%	(0.005492%)
LEOFF 1	0.006642%	0.006788%	0.000146%
LEOFF 2	0.057660%	0.055234%	(0.002426%)

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 2020. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2020, 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 2020, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (116,767)
PERS 2/3	45,014
LEOFF 1	(9,175)
LEOFF 2	42,230
TOTAL	\$ (38,698)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$8,245
Contributions subsequent to the measurement date	\$148,547	0
TOTAL	\$148,547	\$8,245

PERS Plan 2 & 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$250,092	\$87,552
Net difference between projected and actual investment earnings on pension plan investments	0	35,479
Changes of assumptions	9,950	477,211
Changes in proportion and differences between contributions and proportionate share of contributions	21,998	188,098
Contributions subsequent to the measurement date	244,006	0
TOTAL	\$526,046	\$788,340

LEOFF Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$1,341
TOTAL	\$0	\$1,341

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$155,897	\$19,983
Net difference between projected and actual investment earnings on pension plan investments	0	12,558
Changes of assumptions	1,632	174,462
Changes in proportion and differences between contributions and proportionate share of contributions	71,748	55,329
Contributions subsequent to the measurement date	52,596	0
TOTAL	\$281,873	\$262,332

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Combined – PERS 1, 2/3; LEOFF 1 & 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$405,989	\$107,535
Net difference between projected and actual investment earnings on pension plan investments	0	57,623
Changes of assumptions	11,582	651,673
Changes in proportion and differences between contributions and proportionate share of contributions	93,746	243,427
Contributions subsequent to the measurement date	445,149	0
TOTAL	\$956,466	\$1,060,258

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, 2021. 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
2021	(37,414)	(313,786)	(4,787)	(83,923)
2022	(1,177)	(93,196)	(250)	(10,016)
2023	11,416	(11,488)	1,361	17,807
2024	18,930	34,265	2,334	38,829
2025	-	(55,513)	-	(6,442)
Thereafter	-	(66,581)	-	10,691
Total	\$(8,245)	\$(506,300)	\$(1,341)	\$(33,055)

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, 2020, there were a total of 173 individuals covered by this system; 101 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.

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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 2020 was \$7,394,620 and total city payroll was \$9,068,724. Actual city contributions during 2020 were \$476,636, which represents 100% of its current year obligation; and the 2020 pension expense for the Plan. Employee contributions during 2020 were \$523,550. Employees choose from a variety of investment funds offered and administered by ICMA Retirement Corporation. Plan assets amounted to \$23,949,281 at December 31, 2020.

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, 2020, 100 municipalities/entities participate in the AWC RMSA pool.

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

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Great American for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut

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Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2019, AWC RMSA carried a retention of \$200,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

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

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

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

The city did not have any claims settlements that exceeded insurance coverage in each of the last three years: 2018, 2019 and 2020.

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 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 2015 and 2017 notes, which are being paid from general governmental debt service funds, water, sewer and storm revenues.

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 fund financial statements, bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by amortization of discount.

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At December 31, 2020, the city had \$367,459 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,435,245 in debt service funds and reserves as required by bond indentures.

The City had no arbitrage rebate liability for outstanding tax-exempt bonds in 2020.

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

	2020		2020		
	Beginning		Ending		
	Balance	Increase	Decrease	Balance	Due in 2021
Governmental Activities					
Other Post Employment Benefits	\$ 1,700,044	\$ 296,306	\$ -	\$ 1,996,350	\$ -
Net Pension Liability	1,471,964	-	120,721	1,351,243	-
Compensated absences	633,418	96,467	-	729,885	72,989
Other non-current obligations	\$ 3,805,426	\$ 392,773	\$ 120,721	\$ 4,077,478	\$ 72,989
General obligation bonds					
2005 UTGO	1,191,000	-	221,000	970,000	229,000
2010 LTGO & refunding	3,690,000	-	580,000	3,110,000	465,000
Premium on bonds payable	185,532	-	26,505	159,027	-
Promissory Note	1,250,000	-	625,000	625,000	625,000
State Treasurer LOCAL Notes	312,206	-	132,155	180,051	87,830
Premium on Notes	41,696		20,622	21,074	-
Total notes and bonds	6,670,434	-	1,605,282	5,065,152	1,406,830
Total Governmental Activities	\$ 10,475,860	\$ 392,773	\$ 1,726,003	\$ 9,142,630	\$ 1,479,819

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	Beginning Balance	Increase	Decrease	Ending Balance	Due in 2021
Business Type Activities					
Net Pension Liability	\$ 902,172	\$ -	\$ 73,991	\$ 828,181	\$ -
Compensated absences	239,619	29,878		269,497	26,950
Other non-current obligations	\$ 1,141,791	\$ 29,878	\$ 73,991	\$ 1,097,678	\$ 26,950
Revenue bonds					
2010 W/S Taxable BAB Series A	290,000	-	290,000	-	-
2010 W/S Taxable BAB Series B	420,000	-	420,000	-	-
2017 W/S Tax-exempt	5,625,000	-	250,000	5,375,000	250,000
2019 Revenue Refunding	8,160,000		25,000	8,135,000	700,000
Premium on bonds payable	1,380,927		87,333	1,293,594	-
PWTF Loan-Outfall construction	4,764,704	-	529,412	4,235,292	529,412
PWTF Loan-WWTP Ph 2 const.	3,586,819	-	275,909	3,310,910	275,909
State Treasurer LOCAL Notes	88,848	-	38,064	50,784	24,772
Premium on Notes	6,809	-	3,231	3,578	-
Total notes and bonds	24,323,107	-	1,918,949	22,404,158	1,780,093
Total Business Type Activities	\$ 25,464,898	\$ 29,878	\$ 1,992,940	\$ 23,501,836	\$ 1,807,043

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	Principal	Interest
December 31		
2021	1,406,830	186,682
2022	815,221	138,502
2023	752,000	104,901
2024	781,000	72,365
2025	550,000	38,475
2026	580,000	13,050
Totals	\$ 4,885,051	\$ 553,975

The following general obligation bond/note issues are outstanding as of December 31, 2020

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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	\$970,000
2010 Limited Tax General Obligation and Refunding Bonds; Refunding bonds used to advance refund the 2001 LTGO bonds maturing June 2012 through June 2026. The LTGO (new money) portion of the bond issue was used to purchase a water front property. Debt service payments are funded from general revenues.	2010 - 2016	3.0 – 4.55%	\$7,730,000	\$3,110,000
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	\$ 180,051
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	\$ 625,000

Special assessment bonds

The city does not have any special assessment bonds outstanding as of December 31, 2020.

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, 2020:

Description/ Purpose	Range of Maturities	Interest Rate	Original Issue Amount	Amount Outstanding
Public Works Trust Fund Loan - 2008 Proceeds used for design of treatment plant expansion.	2009 - 2028	0.5%	\$10,000,000	\$ 4,235,294

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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	\$ 3,310,909
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	\$ 5,375,000
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.	2017 - 2022	1.27097%	\$113,262	\$ 50,784
2019 Water & Sewer Revenue and Refunding Bonds; Refunding bonds used to refund the 2010 Taxable Build America Bonds maturing in 2021 through 2029, totaling \$8,720,000	2019 - 2030	3.0 – 5.0%	\$8,270,000	\$ 8,135,000

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:

Year Ending	Principal	Interest
December 31		
2021	1,780,093	528,349
2022	1,806,332	495,242
2023	1,820,321	454,855
2024	1,850,321	421,068
2025	1,880,321	383,631
2026 - 2030	9,002,781	1,214,302
2031 - 2035	2,526,818	333,269
2036	440,000	17,600
Totals	\$ 21,106,987	\$ 3,848,317

Refunded debt

August 2, 2019, the City, issued \$8,270,000 of water and sewer revenue refunding bonds (refunding bonds) in order to refund (refinance) the 2010 Water and Sewer Revenue and Refunding Taxable Build America bonds. The city contributed \$149,297 to the escrow account. 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 \$8,720,000 of refunded debt. As a result, the refunded bonds are considered defeased; and the liability has been removed from the business 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 \$890,110 and resulted in an economic gain of \$687,667.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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

Note 10 – Contingencies and litigation

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

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

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

Note 11 – Transfers to/from other funds

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

Interfund transfers through December 31, 2020 were as follows:

Transfers In						
Transfers Out	General Fund	Street Operating	Street Capital	Park Development	LTGO Bond Fund	Total
General Fund		\$ 1,500,000	\$ 170,200	\$ 693,600	\$1,003,993	\$3,367,793
Street Capital	215,000					215,000
Hospital Benefit Zone			206,200			206,200
Non-major Funds			418,100		1,626,586	2,044,686
Total Transfers	\$ 215,000	\$ 1,500,000	\$ 794,500	\$ 693,600	\$2,630,579	\$5,833,679

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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 OPEB amounts for all plans subject to the requirements of the GASB Statement 75, for the year 2020:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 1,996,350
Deferred outflows of resources	19,601

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 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 2020, the City paid \$30,483 towards the OPEB obligation.

Actuarial Assumptions

The total OPEB liability for the City was determined using the "2018 LEOFF 1 Medical Benefits Actuarial Valuation Report." The actuarial assumptions used in the valuation were based on the results of this report.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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, 2018 to the measurement date of June 30, 2020 using the healthcare trend rates detailed in the “2018 LEOFF 1 Medical Benefits Actuarial Valuation Report.”

Sensitivity of Total OPEB Liability (TOL)

The following presents the total OPEB liability of the city calculated using the current healthcare cost trend rate of 5.3 percent (for members older than 65), as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.3 percent) or 1-percentage point higher (6.3 percent) than the current rate.

	1% Decrease (4.3%)	Current Discount Rate (5.3%)	1% Increase (6.3%)
Total OPEB liability	\$ 1,743,431	\$ 1,966,350	\$ 2,298,612

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%)
Total OPEB liability	\$ 2,320,278	\$ 1,966,350	\$ 1,732,493

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Changes in Total OPEB Liability (TOL)

Total OPEB Liability at 1/1/2020	\$1,700,044
Service cost	-
Interest	58,566
Changes in benefit terms	-
Differences between expected and actual experience	291,678
Changes of assumptions	
Benefit payments	(53,938)
Other changes	-
Total OPEB Liability at 12/31/2020	\$1,996,350

The measurement date for the Total OPEB Liability is 6/30/2020.

At December 31, 2020, the city reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	\$ -	\$ -
Payments subsequent to the measurement date	\$ 19,601	\$ -
TOTAL*	\$ 19,601	\$ -

Deferred outflows of resources of \$19,601 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, 2021. 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 2020 financial statements.

CITY OF GIG HARBOR
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Fund/Account	Government-		Reason
	Wide Statement Amount	Fund Financial Statement Amount	
Storm Fund	16,829	16,829	This corrects the long term debt accounts.
Enterprise Funds Total	\$ 16,829	\$ 16,829	
Street Capital Fund	na	454,763	Transfer liability for interfund loan from sewer to LT Debt fund
Park Development Fund	na	454,763	Transfer liability for interfund loan from sewer to LT Debt fund
LTGO Bond Fund	na	(916,666)	Transfer liability for interfund loan from sewer to LT Debt fund
Governmental Activities/General fund	21,488	28,628	Correct accounts for effect of a missed accrual.
Governmental Funds Total	\$ 21,488	\$ 21,488	

NOTE 14 – COVID-19

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. In response, the Civic Center was closed to the public throughout 2020 and reopened in mid-2021. The city forgave \$588,000 of utility income in March-April 2020 due to the crisis, to help everyone that had a water and sewer bill; and worked with local, state, and federal governments to distribute funds to local businesses. Strong growth appears to be mitigating the impacts of business closures resulting from the pandemic.

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2020

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

	2020 Annual Budget		Actual Amounts	Variance
	Original	Final		
Revenues				
Taxes	\$ 12,206,947	\$ 12,206,947	\$ 12,425,056	\$ 218,109
Licenses and permits	1,260,408	1,260,408	1,524,834	264,426
Intergovernmental revenues	176,738	176,738	698,172	521,434
Charges for services	388,023	388,023	254,291	(133,732)
Fines and forfeits	199,111	199,111	82,396	(116,715)
Miscellaneous	320,707	320,707	290,819	(29,888)
Total revenues	14,551,934	14,551,934	15,275,568	723,634
Expenditures				
Current:				
Judicial	527,950	527,950	477,755	50,195
General government	3,131,233	3,131,233	3,168,470	(37,237)
Security of persons and property	4,077,591	4,077,591	3,989,352	88,239
Physical environment	10,000	10,000	9,949	51
Economic environment	2,466,038	2,466,038	1,914,655	551,383
Mental and physical health	7,500	7,500	3,162	4,338
Culture and recreation	1,290,774	1,290,774	1,119,088	171,686
Capital outlay	269,179	269,179	294,208	(25,029)
Total expenditures	11,780,265	11,780,265	10,976,639	803,626
Excess of revenues over (under) expenditures	2,771,669	2,771,669	4,298,929	1,527,260
Other financing sources (uses)				
Capital asset disposal	-	-	28,052	28,052
Transfers in	35,725	35,725	10,481	(25,244)
Transfers out	(5,525,000)	(5,915,000)	(4,622,651)	1,292,349
Total other financing sources (uses)	(5,489,275)	(5,879,275)	(4,584,118)	1,295,157
Net change in fund balance	(2,717,606)	(3,107,606)	(285,189)	2,822,417
Fund balance - beginning	5,118,909	5,518,909	6,924,640	1,405,731
Fund balance - ending	\$ 2,401,303	\$ 2,411,303	\$ 6,639,451	\$ 4,228,148
Adjustment to generally accepted accounting principles (GAAP) basis:				
Senior Services Fund			\$ 100,599	
Pedestrian safety Fund			215,027	
Civic Center Debt Reserve Fund			1,595,170	
Strategic Reserve Fund			1,601,328	
Equipment Reserve Fund			439,002	
Public Art Capital Projects Fund			137,231	
Fund balance - GAAP basis			\$ 10,727,808	

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2020

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

	<u>2020 Annual Budget</u>		<u>Actual</u>	
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Amounts</u>	<u>Variance</u>
Revenues				
Licenses and permits	\$ 15,000	\$ 15,000	\$ 19,600	\$ 4,600
Intergovernmental revenues	222,579	222,579	213,149	(9,430)
Charges for Service	108,512	108,512	113,168	4,656
Miscellaneous	8,500	8,500	16,404	7,904
Total revenues	354,591	354,591	362,321	7,730
Expenditures				
Current:				
Transportation	1,981,895	1,981,895	1,778,713	203,182
Capital outlay	172,941	172,941	53,117	119,824
Total expenditures	2,154,836	2,154,836	1,831,830	323,006
Excess of revenues over (under) expenditures	<u>(1,800,245)</u>	<u>(1,800,245)</u>	<u>(1,469,509)</u>	<u>330,736</u>
Other financing sources (uses)				
Transfers in	1,800,725	1,800,725	1,500,000	(300,725)
Total other financing sources (uses)	<u>1,800,725</u>	<u>1,800,725</u>	<u>1,500,000</u>	<u>(300,725)</u>
Net change in fund balance	480	480	30,491	30,011
Fund balances - beginning	331,063	353,565	1,197,732	844,167
Fund balances - ending	\$ 331,543	\$ 354,045	\$ 1,228,223	\$ 874,178

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2020

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, 2020
Last 10 Fiscal Years*

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total OPEB liability - beginning	\$ 2,168,093	\$ 2,086,295	\$ 1,700,044
Service cost	-	-	-
Interest	76,554	78,589	58,566
Changes in experience data & assumptions	(98,386)	(352,637)	291,678
Changes in benefit terms	-	-	-
Changes of assumptions	-	-	-
Estimated benefit payments	(59,966)	(112,203)	(53,938)
Total OPEB liability - ending	<u>\$ 2,086,295</u>	<u>\$ 1,700,044</u>	<u>\$ 1,996,350</u>
Covered-employee payroll**	\$ -	\$ -	\$ -
Total OPEB liability as a % of covered payroll	NA	NA	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, 2020

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2020
 Last 10 Fiscal Years*

	2014	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.047694%	0.047273%	0.047672%	0.048376%	0.048412%	0.046555%	0.041943%
Employer's proportionate share of the net pension liability	\$ 2,402,608	\$ 2,381,400	\$ 2,560,211	\$ 2,295,479	\$ 2,162,096	\$ 1,790,205	\$ 1,480,814
TOTAL	2,402,608	2,381,400	2,560,211	2,295,479	2,162,096	1,790,205	1,480,814
Employer's covered employee payroll	\$ 5,291,050	\$ 5,417,650	\$ 5,175,094	\$ 6,102,114	\$ 6,445,696	\$ 6,534,829	\$ 6,366,457
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.41%	43.96%	49.47%	37.62%	33.54%	27.39%	23.26%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%

* 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, 2020

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2020

Last 10 Fiscal Years*

	2014	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.061406%	0.061119%	0.061113%	0.062254%	0.062178%	0.060116%	0.054624%
Employer's proportionate share of the net pension liability	\$ 1,241,237	\$ 2,183,817	\$ 3,076,991	\$ 2,163,029	\$ 1,061,634	\$ 583,931	\$ 698,610
TOTAL	1,241,237	2,183,817	3,076,991	2,163,029	1,061,634	583,931	698,610
Employer's covered employee payroll	\$ 5,291,050	\$ 5,417,650	\$ 5,175,094	\$ 6,102,114	\$ 6,445,696	\$ 6,534,829	\$ 6,366,457
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	23.46%	40.31%	59.46%	35.45%	16.47%	8.94%	10.97%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%

* 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, 2020

Schedule of Proportionate Share of the Net Pension Liability LEOFF 1 As of June 30, 2020 Last 10 Fiscal Years*	2014	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.006248%	0.006300%	0.006368%	0.006458%	0.006912%	0.006642%	0.006788%
Employer's proportionate share of the net pension liability (asset)	\$ (75,775)	\$ (75,929)	\$ (65,609)	\$ (97,982)	\$ (125,487)	\$ (131,287)	\$ (128,192)
TOTAL	\$ (75,775)	\$ (75,929)	\$ (65,609)	\$ (97,982)	\$ (125,487)	\$ (131,287)	\$ (128,192)
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	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%	148.78%	146.88%

CITY OF GIG HARBOR
Required Supplementary Information
For the Year Ended December 31, 2020

Schedule of Proportionate Share of the Net Pension Liability LEOFF 2 As of June 30, 2020 Last 10 Fiscal Years*	2014	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.051019%	0.052564%	0.053612%	0.054039%	0.060586%	0.057660%	0.055234%
Employer's proportionate share of the net pension liability (asset)	\$ (677,044)	\$ (540,253)	\$ (311,823)	\$ (749,886)	\$ (1,230,028)	\$ (1,335,805)	\$ (1,126,693)
State's proportionate share of the net pension liability (asset) associated with the employer	(408,164)	(357,216)	(203,286)	(486,437)	(796,420)	(874,773)	(720,435)
TOTAL	(1,085,208)	(897,469)	(515,109)	(1,236,323)	(2,026,448)	(2,210,578)	(1,847,128)
Employer's covered employee payroll	\$ 1,462,846	\$ 1,566,117	\$ 1,612,202	\$ 1,694,021	\$ 1,969,733	\$ 1,980,033	\$ 2,059,577
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	74.18%	57.31%	31.95%	72.98%	102.88%	111.64%	89.66%
Plan fiduciary net position as a percentage of the total pension liability	116.75%	111.67%	106.04%	113.36%	118.50%	119.43%	115.83%

* 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, 2020

Schedule of Employer Contributions
PERS 1
As of December 31, 2020
Last 10 Fiscal Years*

	2014	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 206,532	\$ 239,502	\$ 285,061	\$ 294,277	\$ 338,779	\$ 318,567	\$ 310,532
Contributions in relation to the statutorily or contractually required contributions	(206,532)	(239,502)	(285,061)	(294,277)	(338,779)	(318,567)	(310,532)
Contribution deficiency (excess)	-	-	-	-	-	-	-
Covered employer payroll	\$ 5,291,050	\$ 5,490,664	\$ 5,977,738	\$ 6,021,538	\$ 6,735,194	\$ 6,422,801	\$ 6,483,904
Contributions as a percentage of covered employee payroll	3.90%	4.36%	4.77%	4.89%	5.03%	4.96%	4.79%

* 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, 2020

Schedule of Employer Contributions
PERS 2/3
As of December 31, 2020
Last 10 Fiscal Years*

	2014	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 207,599	\$ 315,640	\$ 372,490	\$ 409,307	\$ 504,466	\$ 494,804	\$ 513,525
Contributions in relation to the statutorily or contractually required contributions	(207,599)	(315,640)	(372,490)	(409,307)	(504,466)	(494,804)	(513,525)
Contribution deficiency (excess)	-	-	-	-	-	-	-
Covered employer payroll	\$ 5,291,050	\$ 5,490,664	\$ 5,977,738	\$ 6,021,538	\$ 6,563,519	\$ 6,422,801	\$ 6,483,904
Contributions as a percentage of covered employee payroll	3.92%	5.75%	6.23%	6.80%	7.69%	7.70%	7.92%

* 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, 2020

Schedule of Employer Contributions
LEOFF 2
As of December 31, 2020
Last 10 Fiscal Years*

	2014	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 73,874	\$ 79,240	\$ 81,416	\$ 91,960	\$ 98,975	\$ 100,173	\$ 113,306
Contributions in relation to the statutorily or contractually required contributions	(73,874)	(79,240)	(81,416)	(91,960)	(98,975)	(100,173)	(113,306)
Contribution deficiency (excess)	-	-	-	-	-	-	-
Covered employer payroll	\$ 1,462,846	\$ 1,566,117	\$ 1,612,202	\$ 1,775,362	\$ 2,017,249	\$ 1,885,714	\$ 2,176,220
Contributions as a percentage of covered employee payroll	5.05%	5.06%	5.05%	5.18%	4.91%	5.31%	5.21%

* 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, 2020

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

	2020
Operating revenues:	
Charges for sales and services:	
Water sales	\$ 2,473,351
Sewer charges	5,489,167
Connection fees	3,119,131
Other fees and charges	(249,396)
Utility taxes	269,454
Total operating revenues	11,101,707
Operating expenses:	
Operations and maintenance	3,039,676
Administration	1,429,171
Utility taxes	234,410
Total operating expenses	4,703,257
Operating income (loss)	6,398,450
Nonoperating revenues (expenses):	
Investment interest revenue	225,089
Intergovernmental and grants	5,747
Gain on sale of capital assets	14,793
Total nonoperating revenues (expenses)	245,629
Revenue Available for Debt Service	\$ 6,644,079
Maximum principal and interest due in succeeding years	\$ 1,446,975
Coverage	4.59x
Number of utility customers, as of December 31, 2019:	
Sewer	3,559
Water	3,292

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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