

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis (MD&A) of the City of Oak Harbor's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2019. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

This MD&A, combined with the Financial Statements and the Notes to the Financial Statements, represents the complete 2019 financial activities for the City of Oak Harbor. These are all intended to help the reader understand the City's significant financial issues. This MD&A provides an overview of the City's financial records. The data in this financial report also identifies any material deviations from the financial plan and the adopted annual budget. Finally, the intent of the MD&A and other financial information is to isolate and identify individual fund issues or concerns.

## **FINANCIAL INFORMATION**

The City's government-wide financial statements were prepared on the full accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). The City's fund financial statements for its major and non-major governmental funds were prepared on the modified accrual basis of accounting in conformity with GAAP. The City's major and non-major proprietary funds were accounted for on the full accrual basis of accounting in conformity with GAAP.

The City of Oak Harbor, along with all cities, counties, and other governmental entities in Washington, must comply with the Budgeting, Accounting, and Reporting System (BARS) as defined by the Washington State Auditor's Office (SAO). SAO audits the financial records of all cities and other governmental units within the State. The City of Oak Harbor's financial system integrates financial and administrative controls that ensure the safeguarding of assets and the reliability of financial reports. These controls are designed to provide:

1. Reasonable assurance that transactions are executed in accordance to management understanding and approval;
2. Reasonable assurance that transactions are executed in accordance to GAAP;
3. Accountability for control of assets and obligations; and
4. Assurance that sufficient reporting and review exists to provide adequate information for analysis and comparability of data.

Internal control is a high priority for the City. SAO reviews the City's internal controls, and the City receives and takes action on all the recommendations made. The City maintains strong budgetary controls in order to ensure compliance with legal provisions embodied in the biennial appropriated budget as approved by the City Council. The City Council must authorize any budget increase or decrease to any fund.

## **FINANCIAL HIGHLIGHTS**

- The City's overall financial conditioned improved during 2019, as compared to 2018.
- City of Oak Harbor assets exceeded its liabilities at the close of the 2019 fiscal year by \$158.56 million (net position). Of this amount, \$55.01 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- Reported net position increased \$4.31 million. The overall net position of governmental activities increased \$3.27 million, or 4.81%, during 2019. Net position of business-type activities increased \$1.04 million, or 1.21%, during 2019.

- Total liabilities and deferred inflows decreased by \$3.93 million or 2.64%, primarily due to a decrease in accounts payable due to reduced construction costs for the Clean Water Facility and Windjammer Park.

- Overall, the book value of capital assets increased by \$8.47 million, or 3.93%. Total capital assets from governmental activities increased \$5.21 million or 14.26%. This increase is primarily due to the renovation of Windjammer Park. Capital assets of business-type activities increased \$3.26 million or 1.82%. This net increase is due to the construction of the Clean Water Facility. Additional information on the City's capital assets can be found in Note 5 of this report.

- At the close of 2019, the City's governmental funds reported combined ending fund balances of \$21.65 million. Approximately 52.11% of this total amount, or \$11.28 million, is available for spending at the government's discretion (committed, assigned, and unassigned fund balances). 54.77% or \$11.86 million is in the General Fund and 45.23% or \$9.79 million of the ending fund balances are recorded in the City's Special Revenue Funds; Debt Service and Capital Project funds.

- At the end of the current fiscal year, the ending fund balance for the General Fund was \$11.86 million. Of this amount, 88.36%, or \$10.48 million, is available for spending (committed, assigned, and unassigned) at the government's discretion.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the City of Oak Harbor's basic financial statements. The basic financial statements are comprised of three components:

1. Government-wide Financial Statements;
2. Fund Financial Statements; and
3. Notes to the Financial Statements.

The graphic representation below illustrates the required components of the City's annual financial report and how the required parts are arranged and relate to one another. This illustration helps explain the City's financial presentation. This graphic representation should be used in conjunction with the following explanations to help guide the reader in understanding the financial condition of the City of Oak Harbor.



## BASIC FINANCIAL STATEMENTS

**Government-wide Financial Statements** provide readers with a broad overview of the City of Oak Harbor's finances in a manner similar to a private sector business. They provide both short-term and long-

term information about the City's overall financial status. The government-wide statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities.") The governmental activities of the City include a full range of local government services provided to the public such as executive, judicial, legal, finance, police and fire protection, road maintenance and construction; community planning and economic development; libraries, parks, and recreational opportunities; and other community services. The business-type activities of the City include the City's water, sewer, solid waste, and storm drain utilities, as well as the city-owned marina.

**The Statement of Net Position** presents information on all of the City's assets and liabilities with the difference between the two reported as net position. This statement combines and consolidates governmental funds' current financial resources (short term available resources) with capital assets and long-term obligations, which is primarily debt. The Statement of Net Position serves a purpose similar to that of the Balance Sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the City is improving or deteriorating. Other indicators to consider when evaluating the financial position of the City includes changes to the property tax base, general economic conditions as demonstrated through business licenses fees or sales tax revenue, and the condition of the City's infrastructure (roads, drainage systems, bridges, and water infrastructure).

**The Statement of Activities** presents information showing how the City's net position changed during the most recent fiscal year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activities on this statement are reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands. The government-wide financial statements can be found immediately following this section (MD&A) of the annual financial report.

In the Statement of Net Position and the Statement of Activities, the City activities are divided into two categories:

- *Governmental Activities* - Most of the City's basic services are reported here, including the police, facilities, parks, planning and general administration. Taxes (property, sales, and utility) and intergovernmental revenues finance most of these activities.
- *Business-type Activities* - The City charges fees to customers to help cover all or most of the costs of certain services provided, and to recoup the cost of the operations of water, sewer, storm drain, and solid waste utilities, as well as all capital and debt expenses associated with the individual utility, and the marina.

## **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are often set up in accordance with special regulations, restrictions, or limitations. The City of Oak Harbor, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The annual financial report includes individual fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund

type. All of the City of Oak Harbor's funds can be divided into two categories: sixteen individual governmental funds ten proprietary funds. The City of Oak Harbor does not utilize fiduciary funds.

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is on Major Funds rather than fund types. A Major Fund has three elements as defined by GASB 34:

- Total assets, liabilities, revenues, or expenditures of that individual governmental or enterprise funds are at least ten percent (10%) of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (i.e., governmental, proprietary, or fiduciary); and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual government fund or enterprise funds are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined; or
- Any other governmental or enterprise fund that the government's officials believe is particularly important.

Governmental funds present most of a government's tax-supported activities. The proprietary funds describe and financially manage the government's business-type activities where all or part of the activities' costs are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds control resources held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

#### **Governmental Funds:**

The Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances presents financial data for the General Fund. Data from the remaining governmental funds, excluding any other major governmental funds, are combined and presented in a single, aggregated column in the fund statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The focus of governmental fund financial statements is on near-term inflows and outflows of available financial resources and on balances of resources available at the end of the fiscal year. Such information is useful in evaluating whether there are more or less financial resources that can be spent in the near future to finance City services.

Because the focus of governmental fund financial statements is a narrower view than that of the government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives the reader a better understanding of the long-term impact of the government's near-term financing decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliation to the governmental activities column in the government-wide statements to facilitate this comparison.

The City maintains budgetary controls over its governmental funds. Budgetary controls ensure compliance with legal provisions embodied in the biennial appropriated budget. Governmental fund budgets are established in accordance with state law and are adopted on a fund level. General Fund budget variances are specifically addressed later in this discussion and analysis.

## **Proprietary Funds:**

These types of funds consist of two types of funds: enterprise and internal service funds. They have always been operated as private business activities. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Internal service funds are used to report activities that provide supplies and services to various City departments and to accumulate and allocate the associated costs of providing these services to the various functions. The revenues and expenses of internal service funds that are duplicated in other funds are eliminated in the government-wide statements. The remaining balances have been allocated to the type of activity, governmental or business-type, that is predominant for each internal service fund.

The City uses enterprise funds to account for its water utility, sewer utility, solid waste utility, storm drain utility, and its marina. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment, management of technological systems and maintenance of City facilities. Internal service funds benefit both governmental and business-type activities and are allocated as appropriate in the government-wide statement of activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City's water utility, sewer utility, solid waste utility, storm drain utility, and marina are presented in separate columns in the proprietary fund financial statements; whereas the internal service funds are combined into a single column. The proprietary fund financial statements are included in the basic financial statements section of this report.

**Fiduciary funds** are used to account for resources held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City does not utilize fiduciary funds at this time.

**Notes to the Financial Statements**, located in the basic financial statements section of this report immediately following the financial statements, provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

**Other information.** The required supplementary information, presented in the financial statements, represents a budgetary comparison schedule for both the General Fund to demonstrate compliance with the budget.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**The Statement of Net Position** can serve as a useful indicator of the City's financial position. The City of Oak Harbor's net position at December 31, 2019, totals \$158.56 million. Following is a condensed version of the government-wide statement of net position comparing fiscal year 2019 to 2018.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$37,960,494	\$41,641,024	\$40,663,332	\$45,141,103	\$ 78,623,826	\$ 86,782,127
Capital assets(net)	41,767,963	36,556,508	182,023,835	178,766,370	223,791,798	215,322,878
Total assets	79,728,457	78,197,531	222,687,167	223,907,473	302,415,624	302,105,005
Deferred outflows of resources	873,986	834,452	213,185	185,073	1,087,170	1,019,525
Total assets and deferred outflows of resources	80,602,442	79,031,984	222,900,352	224,092,546	303,502,794	303,124,530
Current and other liabilities	1,065,745	2,210,647	10,254,639	8,818,325	11,320,384	11,028,971
Long-term liabilities	6,262,727	7,019,233	124,938,797	128,650,376	131,201,524	135,669,610
Total liabilities	7,328,472	9,229,880	135,193,436	137,468,701	142,521,908	146,698,581
Deferred inflows of resources	1,984,940	1,782,321	431,627	391,144	2,416,567	2,173,464
Total Liability and deferred inflows of resources	9,313,413	11,012,201	135,625,062	137,859,844	144,938,475	148,872,045
<b>Net Position</b>						
Net investment in capital assets	41,435,676	36,054,541	49,160,579	43,908,479	90,596,255	79,963,020
Restricted	12,369,410	11,558,022	499,134	338,928	12,868,544	11,896,949
Unrestricted	17,483,944	20,407,220	37,615,576	41,985,295	55,099,520	62,392,515
Total net position	\$71,289,030	\$68,019,783	\$87,275,290	\$86,232,702	\$158,564,319	\$154,252,485

As of the end of 2019, the largest component of the City's total net position at \$90.60 million, or 57.14%, is its investment in capital assets (e.g., land, buildings, streets, parks, water/sewer infrastructure, and machinery and equipment) less any related outstanding debt issued to acquire those assets. These capital assets are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. Approximately \$12.87 million, or 8.12%, of the City's total net position is subject to legal restrictions.

The net position of governmental activities increased by \$3.27 million or 4.81% mainly due to an increase in capital assets from the completion of Phase 1 and 2 of the Windjammer Park project offset by the reduction in cash and accounts payable from the same project. The net position of business-type activities increased \$1.04 million, or 1.21%. mainly due to an increase in capital assets from the completion of the Clean Water Facility project offset by the reduction in cash and accounts payable from the same project..

At the end of the fiscal year, the City of Oak Harbor reported positive balances in all three categories of net position for the government as a whole as well as for the separate governmental and business-type activities.

**The Statement of Activities** can serve as a useful indicator of the results of operations for the City. The following table is a condensed version of the Statement of Activities, illustrating the increases or decreases in net position of the City resulting from its operating activities. The table shows the revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type activities for 2019 and 2018:

**City of Oak Harbor**  
**Changes in Net Position**  
**December 31, 2018 and 2019**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 3,025,998	\$ 3,079,940	\$24,506,989	\$23,476,286	\$ 27,532,987	\$ 26,556,226
Operating grants and contributions	86,703	155,439	28,106	28,024	114,809	183,463
Capital grants and contributions	724,294	1,118,337	671,868	724,080	1,396,162	1,842,417
General revenues:						
Property taxes	4,311,149	4,253,926	-	-	4,311,149	4,253,926
Sales and use taxes	3,976,271	4,195,198	-	-	3,976,271	4,195,198
Other taxes	4,388,113	4,345,930	44,539	-	4,432,652	4,345,930
Licenses and permits	464,228	672,315	2,881	-	467,109	672,315
Unrestricted grants and contributions	2,007,924	2,011,590	-	-	2,007,924	2,011,590
Investment earnings	328,966	236,479	457,648	411,507	786,614	647,986
Miscellaneous	282,147	372,616	203,678	204,490	485,825	577,106
Gain (loss) on sale of assets	656,787	(18,328)	(134,232)	(3,151,369)	522,555	(3,169,698)
Total revenues	<u>20,252,579</u>	<u>20,423,443</u>	<u>25,781,476</u>	<u>21,693,017</u>	<u>46,034,055</u>	<u>42,116,460</u>
<b>EXPENSES</b>						
Governmental activities:						
General government	2,660,049	2,025,664	-	-	2,660,049	2,025,664
Judicial	343,760	387,312	-	-	343,760	387,312
Public safety	7,746,638	7,424,482	-	-	7,746,638	7,424,482
Transportation	2,352,149	2,098,214	-	-	2,352,149	2,098,214
Natural and economic environment	1,499,618	1,480,651	-	-	1,499,618	1,480,651
Social services	397,749	443,819	-	-	397,749	443,819
Culture and recreation	2,062,645	1,698,751	-	-	2,062,645	1,698,751
Interest expense and related charges	8,437	9,534	-	-	8,437	9,534
Business-Type activities:						
Water Fund	-	-	6,215,607	5,726,880	6,215,607	5,726,880
Sewer Fund	-	-	11,234,747	7,393,143	11,234,747	7,393,143
Solid Waste Fund	-	-	3,919,523	3,981,237	3,919,523	3,981,237
Storm Drain Fund	-	-	1,769,757	1,666,175	1,769,757	1,666,175
Marina Fund	-	-	1,511,541	1,353,380	1,511,541	1,353,380
Total expenses	<u>17,071,045</u>	<u>15,568,427</u>	<u>24,651,175</u>	<u>20,120,816</u>	<u>41,722,220</u>	<u>35,689,243</u>
Change in net position before special items and transfers						
	3,181,534	4,855,016	1,130,301	1,572,201	4,311,835	6,427,217
Transfers	87,713	6,434,878	(87,713)	(6,434,878)	-	-
Change in net position	<u>3,269,247</u>	<u>11,289,894</u>	<u>1,042,588</u>	<u>(4,862,677)</u>	<u>4,311,835</u>	<u>6,427,217</u>
Net position - beginning	68,019,783	56,729,889	86,232,702	91,095,379	154,252,485	147,825,268
Net position - ending	<u>\$71,289,030</u>	<u>\$68,019,783</u>	<u>\$87,275,290</u>	<u>\$86,232,702</u>	<u>\$158,564,319</u>	<u>\$154,252,485</u>

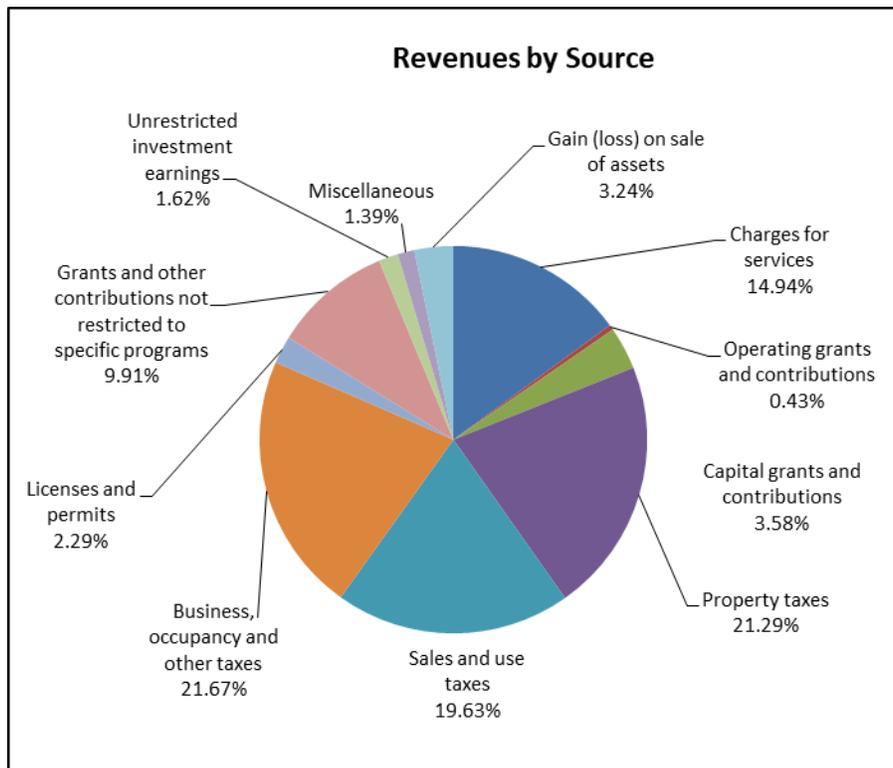
Note: Totals may not foot due to rounding.

In governmental activities, total revenues for 2019 show a \$0.19 million decrease when compared to revenues of the previous year primarily due grants, sales tax and licenses and permits offset by a gain on sale of assets. In business-type activities, revenues have increased \$1.07 million primarily due to charges for services in the sewer and marina funds. The City is currently increasing sewer rates for the construction of the Clean Water Facility.

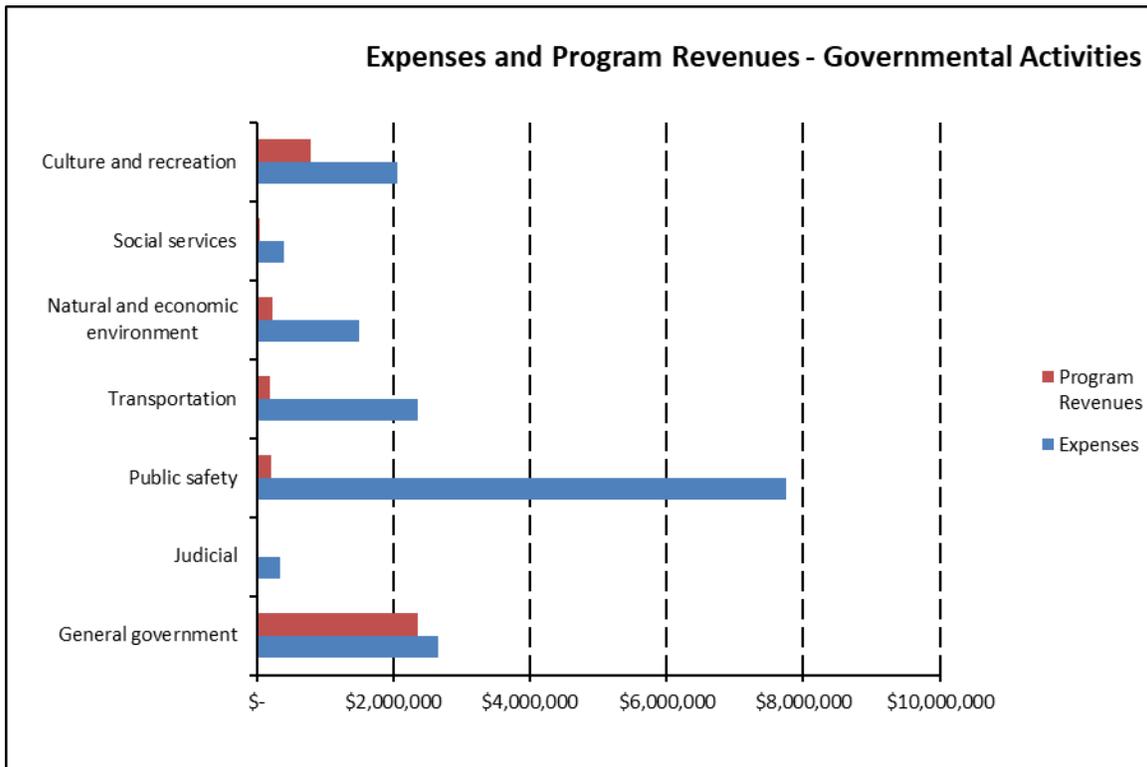
## GOVERNMENTAL ACTIVITIES ANALYSIS

**Revenues:** The following graph illustrates the categorical percentages for each governmental revenue type, net of transfers:

In regard to governmental revenue types excluding transfers, taxes account for the largest revenue category, generating \$12.68 million, or 62.59%, of the \$20.25 million total governmental revenues. The majority of tax revenue is received in the General Fund accounting for \$11.32 million, or 70.17%, of General Fund revenues. Because of this high percentage, this General Fund category receives the majority of attention during the City's budgeting process. Included in this category are sales, property, utility, criminal justice, and gambling taxes.



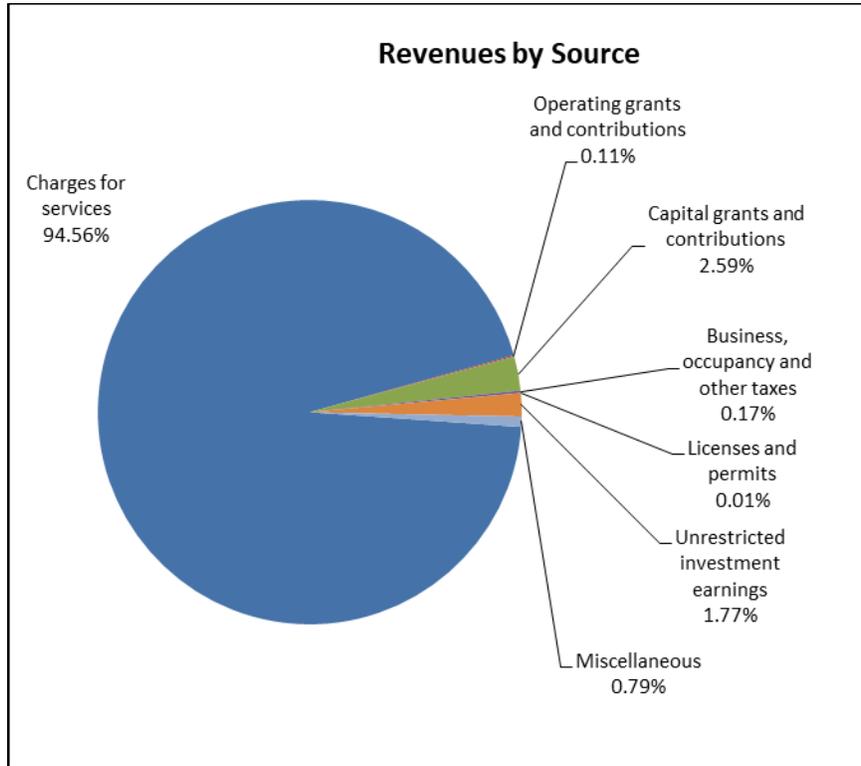
**Expenses:** The following comparative graph illustrates governmental program revenues to program expenses:



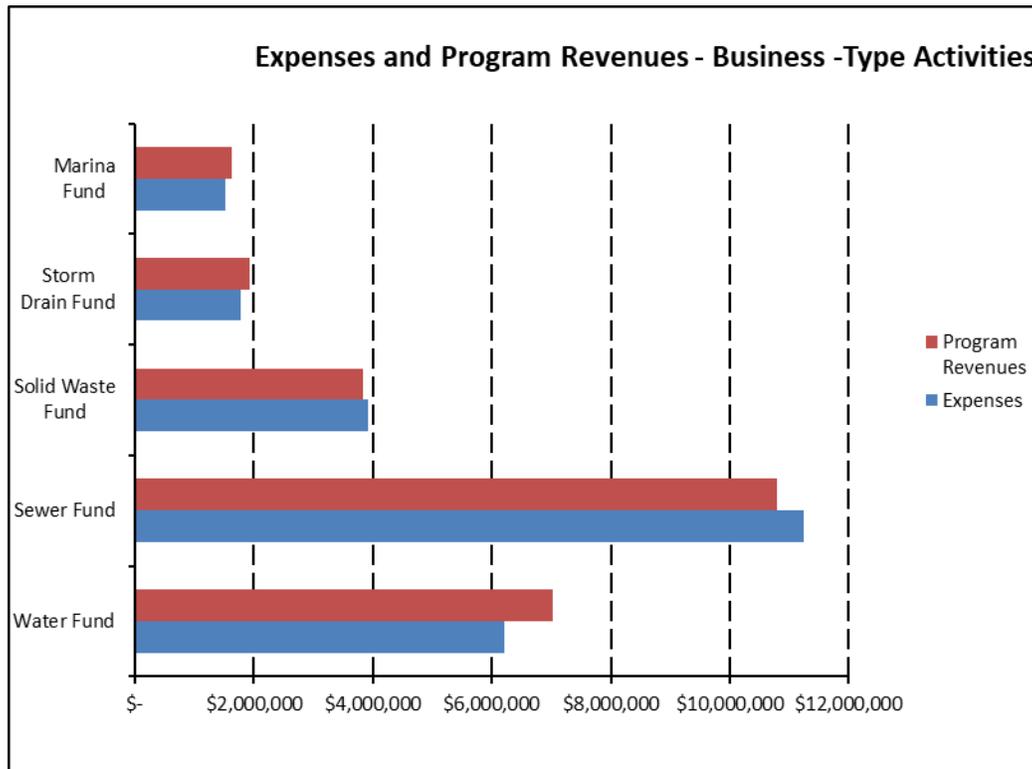
General government services encompass a variety of services including executive, development services, financial, legal, judicial, personnel, building maintenance, and audit/risk management. Security of persons and property services are provided by the City's Police Department who works to provide professional law enforcement services to keep our citizens and their property safe. Special emphasis is placed on community-oriented programs that will prevent crime and forge a partnership between the officers and the citizens they serve. Transportation services provide maintenance of the City's streets, sidewalks, paths and traffic control signs/signals. Natural and economic environment services include land use planning, zoning and community development. Social services include the Senior Center and the City's support for the county's substance abuse program and the Impaired Driving Impact Panel of Island County. The City is required by State law to commit 2% of our revenues from liquor profits and liquor tax to this program. The City has a contract with the Island County Health Department, which uses a formula based on population and assessed value to determine the City's level of subsidy. Cultural and recreational services include community and neighborhood parks.

## BUSINESS-TYPE ACTIVITIES ANALYSIS

**Revenues:** The following graphs illustrate the categorical percentages for each business-type revenue:



**Expenses:** The following comparative graph illustrates business-type program revenues to program expenses:



### Enterprise Funds

The City of Oak Harbor owns and fully operates five enterprise funds, which are accounted for separately as part of the City's fund structure and operations. The five funds are as follows:

- **Water Fund:** The City's water utility is solely supported by its customers, and revenue is generally derived from three sources: 1) monthly service charges, 2) system connection fees, and 3) miscellaneous revenues. The majority of revenue comes from monthly service charges.

- **Sewer Fund:** The City's sewer utility is also solely supported by its users and revenue is generally derived from three sources: 1) monthly service charges, 2) system connection fees, and 3) miscellaneous revenues. The majority of operating revenue comes from monthly service charges.

- **Solid Waste Fund:** The solid waste utility is supported by its users and revenue is generally derived from service charges for scheduled residential and commercial solid waste pickup. The City also receives fees for the collection of compostable green waste, and for regular dumpster garbage collection. The City's recycle program is included within the service charge fee structure. The majority of revenue comes from monthly service charges. There was no cost inflator for the rates in 2019 keeping the revenues fairly consistent with previous years, although total revenues for the Solid Waste fund have increased due to the addition of new customers due to the expiration of long-term franchise agreements from previous annexation agreements. Due to the cost of recycling materials through Island County there will be a study done on the impact to rates and if other options should be considered.

- **Storm Drain Fund:** The City's storm drain utility is supported by its users and revenue is generally derived from monthly service charges. Rates are charged to residential and commercial customers by the area of

equivalent residential units (ERU). The rate structure provides funding for many of the storm water projects identified in the City's Comprehensive Storm Water Management Plan.

- **Marina Fund:** This fund is supported primarily through user fees charged to customers using the marina facility. Fees are charged for overnight transient rental of slips, longer term leases for boat owners mooring their vessels, and for the sale of fuel and other products to marina customers.

The City seeks to supplement business activities, as well as governmental activities, through the prudent application of third party funding sources in the form of grants wherever possible. During 2019, business activity program revenues exceeded expenditures because rates were set to accommodate future capital improvements for a fully functioning system. Recently all utilities either implemented or updated their functional plans to evaluate future improvements and operating costs. A rate study will be completed in 2020 to determine if rates should be adjusted going forward to ensure rates are set for capital infrastructure and operations costs.

### **Internal Service Funds:**

The City of Oak Harbor utilizes five internal service funds. These funds are used to account for the goods and services provided to other units of the City entity. Payment by the benefiting unit is intended to fund the costs of providing such service.

- **Equipment Repair Fund:** The Equipment Repair Fund is an internal service fund that provides the City with in-house mechanic services. The service is responsible for both major and minor repairs of all mechanical equipment used in the business activity funds including cars, trucks, heavy equipment, portable pumps and generators, and small engines. All general governmental department vehicles and equipment for police, fire, building inspection, and parks are serviced by these in-house services. Funding is derived from charges for parts, labor, and overhead. This allows the mechanic shop to be fully self-sufficient. No other funding is used to support this operation.

- **Facility Replacement Fund:** The Facility Replacement Fund is an internal service fund to accumulate funds for future repairs on facilities.

- **Technology Replacement Fund:** The Technology Replacement Fund is an internal service fund to accumulate funds for future purchases of hardware and software.

- **Equipment Replacement Fund:** The Equipment Replacement Fund is an internal service fund to accumulate resources for the future purchase of vehicles and equipment. The objectives of this fund are to cooperate with State and local agencies to establish cooperative purchasing agreements that will reduce costs and improve efficiency and effectiveness, to maintain a fleet replacement program that adequately funds vehicle replacement without having to borrow funds, and to oversee the City auction and sale of City assets in accordance with RCW 39. Individual departments contribute towards future purchases over time in order to have adequate cash to fully purchase the asset with no short-term borrowing.

- **Shop Facility Fund:** The Shop Facility Fund is an internal service support fund responsible for the overall maintenance of City owned buildings, and for the supervision and administration of the Public Works Divisions. The Shop Facility Fund is supported by those divisions, which include the Streets, Water, Sewer, Solid Waste, Storm Drain, Engineering, and Parks. Expenses incurred for the Public Works complex are allocated based on a percentage of square footage space utilized by each department.

## MAJOR FUND ANALYSIS

The City, in accordance with GASB 34, performed the major fund calculation and determined that the General Fund and the Windjammer Park Project Fund met the requirement to qualify as major funds. The remaining governmental funds are combined and reported in aggregate. These funds are accounted for using the modified accrual basis of accounting. As reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, total revenues equal \$22.74 million with total expenditures equaling \$26.33 million.

- **General Fund:** The General Fund accounts for the main operating revenues and expenditures of the City's governmental functions. Revenues and expenditures related to executive, judicial, finance, legal, public safety, building inspection and planning and park operations are some of the primary functions of the general government accounted for in General Fund. The majority of tax revenues are receipted into the General Fund supporting the governmental functions of the City. The fund balance for the General Fund has increased \$1.81 million, or 18.02%.

- **Windjammer Park Project Fund:** The Windjammer Park Project Fund accounts for the revenues and expenditures related to the renovation of the waterfront park. The fund balance for the Windjammer Park Project Fund has decreased \$4.74 million, or 93.35%. Funding for this project came from the General Fund, Park Impact fees, REET funds, and the Sewer Fund. The Clean Water Facility provided the majority of the funding due to mitigation of damage to the park that the construction caused.

- **Enterprise Funds:** The City elects to report its four utilities and marina as major funds. In previous years, the marina and storm drain utility have not always met the technical requirements needed to be reported as major funds. However, the City elects to treat both funds as major funds due to the public interest in these operations, and due to the desire to provide a consistent presentation of financial information from year to year. The funds are reported on a full-accrual basis - accounting for all assets and liabilities. Fund balances in solid waste declined in 2019 by \$114,124 or 3.97% due to operating transfers for the interpretive center and the utility office remodel. Storm drain fund balance decreased \$68,774 or 1.28% due to operating transfers for shoreline restoration, the interpretive center and the utility office remodel.

## BUDGETARY HIGHLIGHTS

The following is a brief review of the budgeting changes from the adopted to the amended final budget for the major governmental funds. Please note that budget to actual comparisons is provided in the financial statements.

The significant budgetary changes in the General Funds include:

Budgeted General Fund revenues and expense were increased due to the utility office remodel, fire truck repairs and the purchase of land for the new park. Some adjustments were made between budgeted expenditure line items within departments of the General Fund, with none of these interdepartmental adjustments impacting total adopted fund appropriation.

The significant budgetary changes in the Windjammer Park Project Funds include:

Budgeted Windjammer Park Project Fund revenues and expenditures, were increased due to additional contracts awarded for the park.

## CASH MANAGEMENT

Aggressive efforts to maximize interest earnings of temporary cash reserves have been as successful as the economy allows. The City manages cash accounts by the pooled cash management concept and plans

investment maturities to coincide with cash needs. The pool concept provides for investing greater amounts of money at more favorable interest rates. The City has a Financial Management Policy with recommended levels of cash and reserves. These balances are regularly monitored to assure compliance with the requirements of the policy.

## **DEBT ADMINISTRATION**

The City participates in various forms of debt. In governmental activities, the City has participated in the LOCAL program and has a Certificate of Participation. At the end of 2019 the outstanding balance was \$308,922.

In business-type activities, the City has an outstanding LTGO bond issue in the amount of \$1,600,000 being retired by revenues pledged from the Marina Fund and a revenue bond in the amount of \$25,720,000 being retired from the Sewer Fund,

Additionally, the City has three Public Works Trust Fund Loans for a combined amount of \$1,039,446 which are being retired by revenues pledged from the Water Fund and Storm Drain Fund, and five State Revolving loans for a combined amount of \$100,324,686 which are being retired from revenues pledged from the City's Sewer Fund.

The City's debt obligations are well within the statutory limits for debt capacity. There are three types of statutory limits on general obligation debt capacity:

1. The first limit is on the amount of general obligation debt that can be incurred without a vote of the people. For this type of debt, a city is limited to 1.5% of its assessed value (\$2,063,440,993), or \$30,951,614, less outstanding general obligation debt originated without a public vote of \$1,600,000 for a total of \$29,351,614.
2. The second statutory limit is the amount of general obligation debt a city may incur for general governmental purposes with a vote of the people. This limit is 1.0% of the assessed value. For 2019, the City's limit is \$20,634,409, less any amount issued as non-voted debt. At this time the City does not have any voted debt.
3. The third limit is also calculated as a percentage of assessed value. This statutory limit allows a City to incur general obligation debt of up to an additional 2.5% of its assessed value for bond issues approved by the voters for the purpose of utility improvements and an additional 2.5% for parks or open space development. For 2019, the City's limit is \$51,586,023.

Additional information on the City's long-term debt can be found in Note 10 of this report.

## **CAPITAL EQUIPMENT AND UPGRADING CAPITAL FACILITIES**

The City continues to provide for replacement of capital items of \$5,000 or more, such as motor vehicles and public works equipment, as well as other miscellaneous equipment through the utilization of the equipment replacement fund. These replacements are funded with transfers from participating funds to the Equipment Replacement Fund. We separated the funds into different categories in 2020, we now have a Vehicle Replacement Fund, Technology Replacement Fund, and Facility Replacement Fund. The City's budget continues to primarily focus on operation and maintenance costs. Annually the City updates the Capital Improvement Plan (CIP) to prioritize and establish funding sources for capital outlay costs to maintain and upgrade the existing infrastructure. With revenue streams continually being challenged, the City has had the good fortune of securing grants for many of these transportation projects and utilizing Impact fees or REET funding. The City continues to allocate funds for pavement and this year the

Transportation Benefit Fund was established and the permission to charge 2/10<sup>th</sup> more sales tax was submitted to the voters and approved for 2020 collection of that tax revenue..

It has become apparent that the City must continue to direct more efforts to building maintenance programs and begin to plan for future renovation and replacement. The City continues to look for energy savings measures and revenue streams to support ongoing maintenance of City facilities.

## **ECONOMIC FACTORS AND OAK HARBOR IN THE FUTURE**

### **Economy Recovery**

The local economy experienced a similar level of revenue deterioration that other communities felt, on a national level, as a result of the economic downturn beginning in 2008. From a local perspective, sales tax revenues, representing a significant revenue component and a barometer of the local economy, declined significantly through the early months of 2013. From mid-2013 through 2019, the City has experienced a slight upturn in sales tax revenue receipts – a fact which represents an improvement in spending and the economic condition of consumers in Oak Harbor and increased construction projects. One large project, City driven, is the Waste Water Treatment Plant that has increased our sales tax from 2015 and continued through 2019. While this welcomed revenue improvement is encouraging, several of the businesses which contributed significantly to the City's sales tax generation base closed or moved away from the local community. Unfortunately, these businesses, primarily automobile dealerships, are not here to participate in any economic recovery. The City is taking a conservative approach in its budgetary estimates of the rapidity and amount of economic recovery.

The City is currently experiencing an increased demand for single family housing primarily due to staffing increases at Naval Air Station Whidbey Island. There remain several undeveloped parcels within the City. Their eventual development will result in increased property tax receipts, however the sales tax receipts as a result of construction will begin to decrease as the inventory of available parcels of property becomes smaller. As always, the outcome will be determined on the general economy and improved consumer confidence.

### **Naval Air Station Whidbey Island (NASWI)**

NASWI is located immediately adjacent to the City of Oak Harbor. This economic position and activities of this military facility, and its accompanying staff and military dependents, are tied closely to the economic vitality of the City of Oak Harbor. Changes in base staffing levels, adjustments to the type of aircraft platforms deployed at the base, variances in the year to year level of construction activity on facility structures, and the ongoing activities of the Base Realignment and Closure Commission (BRAC) at the national level have a direct correlation to the future economic outlook for the City. The City proactively works to diversify its economy with other non-military dependent activities, and to market the viability and military value of the base with Department of Defense officials.

### **Changes in State Law**

The State of Washington has seen a wave of initiatives and anti-tax measures over the past several years. The most significant changes are the elimination of the motor vehicle excise tax, the elimination of a motor vehicle license fee and the imposition of annual one-percent limit to any increases in property taxes. Potential budget reductions at the state level and how these changes might affect state shared revenues such as liquor excise tax revenues, and the availability of Public Works Trust Fund financing funds, are continually being monitored by the City.

The State of Washington does not have a state personal income tax and therefore the state operates primarily using property, sales, utility, and motor vehicle fuel taxes. The City relies on sales, property and utility taxes and a limited array of permitted other taxes, fees, and state and federal grants to support

governmental activities. For the business-type and certain governmental activities (permitting, recreation programs, etc.) the user pays a related fee or associated charge.

According to the U.S. Census Bureau, the City's population has shown steady growth over the last ten years. The daytime population will continue to grow as Oak Harbor becomes a destination for many county residents to shop, to receive medical treatments, and to send students to school for all grade levels including attendance at Skagit Valley College.

The City Council continues to be proactive with other agencies to monitor and lobby for regulations to minimize the impact to the City and provide funds for City services. The City continues to support a possible street utility to provide funding to maintain streets and pay for growing electricity charges related to street lights. The City will continue to work with these surrounding agencies for sharing of services opportunities, to minimize expenses.

The level of taxes, fees and charges for services (including development related mitigation fees) will have a bearing on the City's competitive ability to encourage retail, office, residential, and industrial development to locate in their jurisdiction. The City places significant emphasis on encouraging economic development to attract family wage paying jobs, and as an incentive does not assess a business and occupation tax.

The City is facing what other cities across the nation are, homelessness and adequate housing for low income families. This is up front and prioritized at the state legislature and we may be seeing changes that could change the focus of our services. We will learn as the rest of Washington State does what types of impacts that may have on our funding resources for future uses.

### **Request for Financial Information**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the monies it receives. Any questions about this report or requests for additional financial information should be addressed to the Finance Department, City of Oak Harbor, 865 SE Barrington Drive, Oak Harbor, Washington, 98277.

**City of Oak Harbor**  
**Statement of Net Position**  
**December 31, 2019**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 19,915,562	\$ 25,500,596	\$ 45,416,158
Investments	7,194,054	7,865,467	15,059,521
Accounts receivable (net)	655,866	2,601,054	3,256,920
Deposits receivable	340,819	3,962,562	4,303,382
Restricted cash	2,701,960	335,672	3,037,632
Due from other governments	1,274,904	17,066	1,291,969
Inventories	26,755	39,510	66,265
Prepays	312,468	2,478	314,945
Total current assets	<u>32,422,388</u>	<u>40,324,404</u>	<u>72,746,793</u>
Noncurrent assets:			
Restricted cash	2,856,769	338,928	3,195,696
Pension asset	2,681,337	-	2,681,337
Land	10,839,204	5,354,367	16,193,572
Construction in progress	557,628	348,497	906,125
Intangible assets	50,000	-	50,000
Buildings and systems	4,791,175	136,979,608	141,770,783
Improvements and infrastructure	20,881,479	38,571,248	59,452,727
Machinery and equipment	4,648,476	770,115	5,418,592
Total noncurrent assets	<u>47,306,068</u>	<u>182,362,763</u>	<u>229,668,831</u>
Total assets	<u>79,728,457</u>	<u>222,687,167</u>	<u>302,415,624</u>
<b>Deferred Outflows of Resources</b>			
Asset retirement obligation	-	22,639	22,639
OPEB	33,273	-	33,273
Pension	840,713	190,546	1,031,259
Total deferred outflows of resources	<u>873,986</u>	<u>213,185</u>	<u>1,087,170</u>
Total assets and deferred outflows of resources	<u>80,602,442</u>	<u>222,900,352</u>	<u>303,502,794</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	377,464	747,294	1,124,758
Accrued interest payable	1,171	536,458	537,629
Other current liabilities	449,125	4,138,451	4,587,576
Unearned revenue	30,963	-	30,963
Compensated absences	102,504	18,120	120,624
Asset retirement obligation	-	10,000	10,000
Due to other governments	45,837	4,684,316	4,730,152
Bonds payable, net	-	120,000	120,000
OPEB liability	58,682	-	58,682
Total current liabilities	<u>1,065,745</u>	<u>10,254,639</u>	<u>11,320,384</u>
Noncurrent liabilities:			
Compensated absences	1,647,008	286,665	1,933,672
Asset retirement obligation	-	20,000	20,000
Due to other governments	286,450	96,679,816	96,966,266
Bonds payable, net	-	27,242,326	27,242,326
OPEB liability	2,407,860	-	2,407,860
Pension obligation	1,921,409	709,991	2,631,400
Total noncurrent liabilities	<u>6,262,727</u>	<u>124,938,797</u>	<u>131,201,524</u>
Total liabilities	<u>7,328,472</u>	<u>135,193,436</u>	<u>142,521,908</u>
<b>Deferred Inflows of Resources</b>			
Pension	1,984,940	431,627	2,416,567
Total deferred inflows of resources	<u>1,984,940</u>	<u>431,627</u>	<u>2,416,567</u>
Total liabilities and deferred inflows of resources	<u>9,313,413</u>	<u>135,625,062</u>	<u>144,938,475</u>
<b>Net Position</b>			
Net investment in capital assets	41,435,676	49,160,579	90,596,255
Restricted for:			
Public safety	13,720	-	13,720
Transportation	5,305,541	-	5,305,541
Culture and recreation	2,195,650	-	2,195,650
Capital projects	2,665,245	242,134	2,907,379
Pensions	2,149,254	-	2,149,254
Other programs	40,000	-	40,000
Debt service	-	257,000	257,000
Unrestricted	17,483,944	37,615,576	55,099,520
Total net position	<u>\$ 71,289,030</u>	<u>\$ 87,275,290</u>	<u>\$ 158,564,319</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**Statement of Activities**  
**For the Year Ended December 31, 2019**

Functions/Programs	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,660,049	\$ 2,361,055	\$ 480	\$ -	\$ (298,514)	\$ -	\$ (298,514)
Judicial	343,760	2,081	-	-	(341,679)	-	(341,679)
Public safety	7,746,638	171,803	44,013	-	(7,530,822)	-	(7,530,822)
Transportation	2,352,149	34,575	-	165,694	(2,151,880)	-	(2,151,880)
Natural and economic environment	1,499,618	223,322	-	-	(1,276,296)	-	(1,276,296)
Social services	397,749	-	30,949	18,304	(348,496)	-	(348,496)
Culture and recreation	2,062,645	233,163	11,261	540,295	(1,277,926)	-	(1,277,926)
Interest expense and related charges	8,437	-	-	-	(8,437)	-	(8,437)
Total governmental activities	<u>17,071,045</u>	<u>3,025,998</u>	<u>86,703</u>	<u>724,294</u>	<u>(13,234,050)</u>	<u>-</u>	<u>(13,234,050)</u>
Business-type activities:							
Water Fund	6,215,607	6,368,117	-	651,938	-	804,447	804,447
Sewer Fund	11,234,747	10,802,497	-	-	-	(432,249)	(432,249)
Solid Waste Fund	3,919,523	3,829,277	-	-	-	(90,246)	(90,246)
Storm Drain Fund	1,769,757	1,903,966	-	19,930	-	154,139	154,139
Marina Fund	1,511,541	1,603,132	28,106	-	-	119,697	119,697
Total business-type activities	<u>24,651,175</u>	<u>24,506,989</u>	<u>28,106</u>	<u>671,868</u>	<u>-</u>	<u>555,787</u>	<u>555,787</u>
Total primary government	<u>\$41,722,220</u>	<u>\$ 27,532,987</u>	<u>\$ 114,809</u>	<u>\$ 1,396,162</u>	<u>(13,234,050)</u>	<u>555,787</u>	<u>(12,678,263)</u>
General revenues:							
Property taxes					4,311,149	-	4,311,149
Sales and use taxes					3,976,271	-	3,976,271
Business, occupancy and other taxes					4,388,113	44,539	4,432,652
Licenses and permits					464,228	2,881	467,109
Grants and other contributions not restricted to specific programs					2,007,924	-	2,007,924
Unrestricted investment earnings					328,966	457,648	786,614
Miscellaneous					282,147	203,678	485,825
Gain (loss) on sale of assets					656,787	(134,232)	522,555
Transfers					87,713	(87,713)	-
Total general revenues, special items, and transfers					<u>16,503,297</u>	<u>486,801</u>	<u>16,990,098</u>
Change in net position					<u>3,269,247</u>	<u>1,042,588</u>	<u>4,311,835</u>
Net position - beginning					<u>68,019,783</u>	<u>86,232,702</u>	<u>154,252,485</u>
Net position - ending					<u>\$ 71,289,030</u>	<u>\$ 87,275,290</u>	<u>\$158,564,319</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor  
Balance Sheet  
Governmental Funds  
December 31, 2019**

	<u>General Fund</u>	<u>Windjammer Park Project Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash & cash equivalents	\$ 6,535,645	\$ 425,132	\$ 3,520,687	\$ 10,481,464
Investments	3,159,270	-	957,018	4,116,287
Accounts receivables (net)	648,973	-	1,577	650,549
Deposits receivables	-	340,819	-	340,819
Restricted cash	917,436	-	4,641,293	5,558,729
Due from other governments	799,240	-	424,220	1,223,460
Prepays	148,988	-	1,971	150,959
Total assets	<u>\$ 12,209,551</u>	<u>\$ 765,952</u>	<u>\$ 9,546,764</u>	<u>\$ 22,522,267</u>
<b>Liabilities</b>				
Accounts payable	\$ 182,707	\$ 87,325	\$ 69,611	\$ 339,643
Deposits	79,365	-	17,160	96,525
Retainage	7,874	340,819	3,907	352,600
Unearned revenue	29,803	-	1,160	30,963
Total liabilities	<u>299,749</u>	<u>428,144</u>	<u>91,838</u>	<u>819,731</u>
<b>Deferred Inflows of Resources</b>				
Taxes	51,049	-	-	51,049
Total deferred inflows of resources	<u>51,049</u>	<u>-</u>	<u>-</u>	<u>51,049</u>
Total liabilities and deferred inflows of resources	<u>350,798</u>	<u>428,144</u>	<u>91,838</u>	<u>870,780</u>
<b>Fund Balances (Deficits)</b>				
Unspendable	148,988	-	458	149,446
Restricted	1,231,114	-	8,989,042	10,220,156
Committed	1,817,945	337,808	285,426	2,441,178
Assigned	1,387,200	-	180,000	1,567,200
Unassigned	7,273,506	-	-	7,273,506
Total fund balances (deficits)	<u>11,858,753</u>	<u>337,808</u>	<u>9,454,926</u>	<u>21,651,487</u>
Total liabilities and fund balances (deficits)	<u>\$ 12,209,551</u>	<u>\$ 765,952</u>	<u>\$ 9,546,764</u>	<u>\$ 22,522,267</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor  
Reconciliation of Balance Sheet  
To the Statement of Net Position  
December 31, 2019**

Fund balances of governmental funds		\$21,651,487
<p>Amounts reported for governmental activities in the statement of net position are different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in funds:</p>		
Historical cost of assets not being depreciated	11,399,037	
Historical cost of assets being depreciated	57,631,081	
Accumulated depreciation	<u>(32,941,935)</u>	36,088,183
<p>Long-term assets are not available to pay for current period expenditures and therefore deferred:</p>		
Other long-term assets	51,444	
Taxes receivable	<u>51,049</u>	102,493
<p>Pension asset, pension liabilities, and pension deferred items are not reported in the funds.</p>		
		257,903
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds:</p>		
Compensated absences	(1,425,779)	
Bonds and loans payable	(333,458)	
Other post-employment benefits, including deferred items	<u>(2,433,269)</u>	(4,192,507)
<p>Internal service funds are used by management to charge the costs of fleet management, shop facilities and information systems to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.</p>		
		<u>17,381,471</u>
		<u><u>\$71,289,030</u></u>

The notes to financial statements are an integral part of this statement.  
Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**

For the Year Ended December 31, 2019

	<u>General Fund</u>	<u>Windjammer Park Project Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ 11,320,585	\$ -	\$ 1,359,663	\$ 12,680,248
Licenses and permits	455,648	-	8,580	464,228
Intergovernmental	563,414	461,237	1,572,372	2,597,023
Charges for services	2,727,610	-	298,388	3,025,998
Fines and forfeits	94,614	-	-	94,614
Interest revenue	168,005	2,507	111,232	281,744
Miscellaneous	145,665	481	70,865	217,011
Total revenues	<u>15,475,540</u>	<u>464,226</u>	<u>3,421,100</u>	<u>19,360,865</u>
<b>Expenditures</b>				
Current:				
General government	3,391,963	-	-	3,391,963
Judicial	343,760	-	-	343,760
Public safety	8,222,180	-	-	8,222,180
Transportation	-	-	1,676,105	1,676,105
Natural and economic environment	1,235,714	-	292,513	1,528,227
Social services	7,113	-	414,209	421,322
Culture and recreation	1,689,326	64,373	18,037	1,771,736
Capital outlay:				
Capital outlay	471,731	5,329,517	489,510	6,290,758
Debt Service:				
Principal	-	-	43,654	43,654
Interest	-	-	16,236	16,236
Total expenditures	<u>15,361,787</u>	<u>5,393,890</u>	<u>2,950,263</u>	<u>23,705,940</u>
Excess (deficiency) of revenues over expenditures	<u>113,753</u>	<u>(4,929,664)</u>	<u>470,837</u>	<u>(4,345,075)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,254,174	186,342	1,274,461	2,714,977
Transfers out	(214,807)	-	(2,412,457)	(2,627,264)
Gain (loss) on sale of fixed assets	656,787	-	-	656,787
Insurance recoveries	563	-	2,686	3,248
Total other financing sources (uses)	<u>1,696,716</u>	<u>186,342</u>	<u>(1,135,310)</u>	<u>747,748</u>
Net change in fund balances	1,810,469	(4,743,322)	(664,474)	(3,597,327)
Fund balances - beginning	10,048,284	5,081,130	10,119,400	25,248,813
Fund balances - ending	<u>\$ 11,858,753</u>	<u>\$ 337,808</u>	<u>\$ 9,454,926</u>	<u>\$ 21,651,487</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances to the Statement of Activities**  
**For the Year Ended December 31, 2019**

Net change in fund balances - total governmental funds (\$3,597,327)

Amounts reported for governmental activities in the statement of net position 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 outlays exceeding depreciation in the current period:

Capital outlay	6,290,758	
Depreciation	(1,203,162)	
		5,087,596

The effect of various miscellaneous transactions involving capital assets not reported in governmental funds:

Contributions of capital assets	131,975	
Disposal of capital assets	(31,641)	
		100,334

Proceeds from and repayment of governmental long-term debt is not reported in the funds.

51,453

Revenues in the statement of activities that do not provide current financial resources are not reported in the funds:

Taxes	(4,715)	
Grants	44,732	
		40,017

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, including:

Change in accounts payable	1,697	
Compensated absences	(69,572)	
Other post-employment benefits	173,233	
Pension expense	757,989	
		863,348

Internal service funds are used by management to charge the costs of fleet management, shop facilities and information systems to individual funds. The net revenues and expenses of the internal service funds are reported with governmental activities in the statement of activities.

Change in net position of governmental activities	723,827
	\$3,269,247

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**

**General Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual  
For the Year Ended December 31, 2019**

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>Revenues</b>			
Taxes	\$ 10,873,134	\$ 10,873,134	\$ 11,320,585
Licenses and permits	565,180	565,180	455,648
Intergovernmental	762,265	762,265	563,414
Charges for services	2,213,970	2,213,970	2,727,610
Fines and forfeits	123,900	123,900	94,614
Interest revenue	34,500	34,500	168,005
Miscellaneous	109,100	94,100	145,665
Total revenues	<u>14,682,049</u>	<u>14,667,049</u>	<u>15,475,540</u>
<b>Expenditures</b>			
Current:			
General government	3,362,486	3,437,463	3,391,963
Judicial	530,630	530,630	343,760
Public safety	8,068,825	8,093,825	8,222,180
Natural and economic environment	1,265,964	1,297,464	1,235,714
Social services	8,200	8,200	7,113
Culture and recreation	1,679,047	1,683,174	1,689,326
Capital outlay:			
Capital outlay	1,531,503	1,989,815	471,731
Debt service:			
Interest	-	-	-
Total expenditures	<u>16,446,655</u>	<u>17,040,571</u>	<u>15,361,787</u>
Excess (deficiency) of revenues over expenditures	<u>(1,764,606)</u>	<u>(2,373,522)</u>	<u>113,753</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	1,191,503	1,261,144	1,254,174
Transfers out	(192,270)	(214,806)	(214,807)
Gain (loss) on sale of fixed assets	-	-	656,787
Insurance recoveries	-	-	563
Total other financing sources (uses)	<u>999,233</u>	<u>1,046,338</u>	<u>1,696,716</u>
Net change in fund balances	(765,373)	(1,327,184)	1,810,469
Fund balances - beginning	10,048,284	10,048,284	10,048,284
Fund balances - ending	<u>\$ 9,282,911</u>	<u>\$ 8,721,100</u>	<u>\$ 11,858,753</u>

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

Note: Totals may not foot due to rounding.

City of Oak Harbor

Windjammer Park Project Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual  
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual
	Original	Final	
<b>Revenues</b>			
Intergovernmental	\$ 698,820	\$ 698,820	\$ 461,237
Interest revenue	-	-	2,507
Miscellaneous	-	-	481
Total revenues	<u>698,820</u>	<u>698,820</u>	<u>464,226</u>
<b>Expenditures</b>			
Current:			
Culture and recreation	86,653	141,602	64,373
Capital outlay:			
Capital outlay	4,697,806	4,791,700	5,329,517
Debt service:			
Interest	-	-	-
Total expenditures	<u>4,784,459</u>	<u>4,933,302</u>	<u>5,393,890</u>
Excess (deficiency) of revenues over expenditures	<u>(4,085,639)</u>	<u>(4,234,482)</u>	<u>(4,929,664)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	84,963	186,342	186,342
Total other financing sources (uses)	<u>84,963</u>	<u>186,342</u>	<u>186,342</u>
Net change in fund balances	(4,000,676)	(4,048,140)	(4,743,322)
Fund balances - beginning	5,081,130	5,081,130	5,081,130
Fund balances - ending	<u>\$ 1,080,454</u>	<u>\$ 1,032,990</u>	<u>\$ 337,808</u>

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

Note: Totals may not foot due to rounding.

City of Oak Harbor  
Statement of Net Position  
Proprietary Funds  
December 31, 2019

	Business-type Activities					Governmental Activities	
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Enterprise Funds	Internal Service Funds
<b>Assets</b>							
Current assets:							
Cash & cash equivalents	\$ 7,870,507	\$ 10,365,250	\$ 2,564,864	\$ 2,764,830	\$ 1,935,145	\$ 25,500,596	\$ 9,434,099
Investments	3,403,855	4,461,612	-	-	-	7,865,467	3,077,766
Accounts receivable (net)	670,337	1,187,489	434,307	204,013	104,908	2,601,054	5,317
Deposits receivable	2,156	3,960,407	-	-	-	3,962,562	-
Restricted cash	77,651	160,207	16,000	-	81,814	335,672	-
Due from other governments	-	-	-	-	17,066	17,066	-
Inventories	-	-	-	-	39,510	39,510	26,755
Prepays	973	1,017	95	66	327	2,478	161,509
Total current assets	<u>12,025,479</u>	<u>20,135,982</u>	<u>3,015,267</u>	<u>2,968,908</u>	<u>2,178,768</u>	<u>40,324,404</u>	<u>12,705,446</u>
Noncurrent assets:							
Restricted cash	81,928	-	-	-	257,000	338,928	-
Land	104,351	1,626,584	201,810	246,201	3,175,421	5,354,367	-
Construction in progress	302,168	14,873	-	31,456	-	348,497	47,795
Buildings and systems	1,728	136,258,423	-	-	719,458	136,979,608	2,451,872
Improvements and infrastructure	21,012,254	14,173,996	10,400	3,034,047	340,552	38,571,248	293,274
Machinery and equipment	429,448	209,892	21,204	21,204	88,368	770,115	2,886,839
Total noncurrent assets	<u>21,931,877</u>	<u>152,283,768</u>	<u>233,413</u>	<u>3,332,907</u>	<u>4,580,798</u>	<u>182,362,763</u>	<u>5,679,780</u>
Total assets	<u>33,957,356</u>	<u>172,419,750</u>	<u>3,248,679</u>	<u>6,301,816</u>	<u>6,759,567</u>	<u>222,687,167</u>	<u>18,385,226</u>
<b>Deferred Outflows of Resources</b>							
Asset retirement obligation	22,639	-	-	-	-	22,639	-
Pension	31,300	55,643	44,144	30,316	29,142	190,546	119,552
Total deferred outflows of resources	<u>53,939</u>	<u>55,643</u>	<u>44,144</u>	<u>30,316</u>	<u>29,142</u>	<u>213,185</u>	<u>119,552</u>
Total assets and deferred outflows of resources	<u>34,011,295</u>	<u>172,475,393</u>	<u>3,292,824</u>	<u>6,332,132</u>	<u>6,788,708</u>	<u>222,900,352</u>	<u>18,504,777</u>
<b>Liabilities</b>							
Current liabilities:							
Accounts payable	220,034	249,787	146,216	17,279	113,979	747,294	37,821
Interest payable	981	528,923	-	1,025	5,528	536,458	-
Deposits	78,075	-	16,000	-	81,814	175,888	-
Retainage	2,156	3,960,407	-	-	-	3,962,562	-
Compensated absences	1,179	2,672	6,049	6,880	1,340	18,120	19,098
Asset retirement obligation	10,000	-	-	-	-	10,000	-
Due to other governments	51,344	4,574,387	-	58,585	-	4,684,316	-
Bonds payable, net	-	-	-	-	120,000	120,000	-
Total current liabilities	<u>363,768</u>	<u>9,316,175</u>	<u>168,265</u>	<u>83,769</u>	<u>322,661</u>	<u>10,254,639</u>	<u>56,919</u>
Noncurrent liabilities:							
Compensated absences	18,207	41,768	96,192	109,798	20,700	286,665	304,634
Asset retirement obligation	20,000	-	-	-	-	20,000	-
Due to other governments	285,085	95,750,299	-	644,432	-	96,679,816	-
Bonds payable, net	-	25,770,662	-	-	1,471,664	27,242,326	-
Pension Obligation	114,634	206,597	165,544	117,387	105,829	709,991	497,775
Total noncurrent liabilities	<u>437,926</u>	<u>121,769,326</u>	<u>261,736</u>	<u>871,618</u>	<u>1,598,192</u>	<u>124,938,797</u>	<u>802,409</u>
Total liabilities	<u>801,694</u>	<u>131,085,500</u>	<u>430,001</u>	<u>955,387</u>	<u>1,920,853</u>	<u>135,193,436</u>	<u>859,328</u>
<b>Deferred Inflows of Resources</b>							
Pension	69,971	125,503	100,909	71,107	64,136	431,627	263,978
Total deferred inflows of resources	<u>69,971</u>	<u>125,503</u>	<u>100,909</u>	<u>71,107</u>	<u>64,136</u>	<u>431,627</u>	<u>263,978</u>
Total liabilities and deferred inflows of resources	<u>871,665</u>	<u>131,211,003</u>	<u>530,911</u>	<u>1,026,494</u>	<u>1,984,989</u>	<u>135,625,062</u>	<u>1,123,307</u>
<b>Net Position</b>							
Net investment in capital assets	21,509,436	22,056,762	233,413	2,628,834	2,732,135	49,160,579	5,679,780
Restricted for:							
Capital projects	81,928	160,207	-	-	-	242,134	-
Debt service	-	-	-	-	257,000	257,000	-
Unrestricted	11,548,266	19,047,421	2,528,500	2,676,804	1,814,585	37,615,576	11,701,691
Total net position	<u>\$ 33,139,630</u>	<u>\$ 41,264,390</u>	<u>\$ 2,761,913</u>	<u>\$ 5,305,638</u>	<u>\$ 4,803,720</u>	<u>\$ 87,275,290</u>	<u>\$ 17,381,471</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2019**

	Business-type Activities					Governmental Activities	
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total Enterprise Funds	Internal Service Funds
<b>Operating Revenues</b>							
Charges for services	\$ 6,240,295	\$10,722,641	\$ 3,827,214	\$ 1,874,357	\$ 1,603,132	\$ 24,267,640	\$ 2,931,136
System development revenue	126,321	79,856	-	-	-	206,177	-
Other operating revenues	1,501	-	2,063	29,609	-	33,172	2,946,226
Total operating revenues	<u>6,368,117</u>	<u>10,802,497</u>	<u>3,829,277</u>	<u>1,903,966</u>	<u>1,603,132</u>	<u>24,506,989</u>	<u>5,877,362</u>
<b>Operating Expenses</b>							
Cost of sales and service	2,409,204	1,041,505	751,957	486,766	774,615	5,464,047	2,666,288
Contractual services	269,073	216,120	10,199	38,559	19,251	553,203	565,868
Utilities	17,859	671,485	1,462,064	-	94,888	2,246,296	65,322
Taxes	678,606	834,565	404,082	137,340	6,076	2,060,668	-
Repairs and maintenance	114,448	59,248	379,542	95,773	120,493	769,505	276,154
Other operating expenses	1,596,316	1,123,301	861,050	761,725	249,569	4,591,961	886,052
Insurance claims and expenses	62,903	268,823	38,800	23,664	32,060	426,250	59,645
Depreciation	1,058,047	3,461,372	11,829	224,112	144,223	4,899,583	693,893
Total operating expenses	<u>6,206,457</u>	<u>7,676,419</u>	<u>3,919,523</u>	<u>1,767,939</u>	<u>1,441,176</u>	<u>21,011,514</u>	<u>5,213,222</u>
Operating income (loss)	<u>161,660</u>	<u>3,126,078</u>	<u>(90,246)</u>	<u>136,027</u>	<u>161,956</u>	<u>3,495,475</u>	<u>664,140</u>
<b>Nonoperating Revenues (Expenses)</b>							
Interest revenue	132,696	201,978	60,395	36,708	25,871	457,648	47,222
External subsidies	-	-	-	-	28,106	28,106	-
Other nonoperating revenues	34,418	135,354	5,932	5,584	60,683	241,970	6,893
Gain (loss) on sale of fixed assets	4,900	(130,115)	-	-	(9,017)	(134,232)	-
Interest expense and related charges	(1,789)	(3,558,327)	-	(1,819)	(70,365)	(3,632,300)	-
Other nonoperating expenses	(7,361)	-	-	-	-	(7,361)	-
Insurance recoveries	-	9,127	-	-	-	9,127	5,572
Total nonoperating revenues (expenses)	<u>162,864</u>	<u>(3,341,983)</u>	<u>66,327</u>	<u>40,473</u>	<u>35,277</u>	<u>(3,037,042)</u>	<u>59,687</u>
Income (loss) before contributions and transfers	324,524	(215,905)	(23,919)	176,500	197,233	458,433	723,827
Capital contributions	651,938	-	-	19,930	-	671,868	-
Transfers in	-	700,000	-	-	-	700,000	1,741,928
Transfers out	(265,205)	(167,099)	(90,205)	(265,204)	-	(787,713)	(1,741,928)
Change in net position	<u>711,256</u>	<u>316,996</u>	<u>(114,124)</u>	<u>(68,774)</u>	<u>197,233</u>	<u>1,042,588</u>	<u>723,827</u>
Total net position - beginning	32,428,374	40,947,394	2,876,036	5,374,411	4,606,487	86,232,702	16,657,644
Total net position - ending	<u>\$33,139,630</u>	<u>\$41,264,390</u>	<u>\$ 2,761,913</u>	<u>\$ 5,305,638</u>	<u>\$ 4,803,720</u>	<u>\$ 87,275,290</u>	<u>\$ 17,381,471</u>

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

Note: Totals may not foot due to rounding.

City of Oak Harbor  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows From Operating Activities</b>							
Cash receipts from customers	\$6,354,337	\$10,885,543	\$ 3,795,558	\$ 1,875,460	\$ 1,628,555	\$ 24,539,453	\$ (5,317)
Receipts from interfund services provided	1,501	-	2,063	29,609	-	33,172	5,877,362
Payments to suppliers	(3,202,647)	(3,765,888)	(2,238,671)	(436,557)	(736,180)	(10,379,943)	(2,618,276)
Payments to employees	(330,437)	(653,799)	(480,412)	(336,025)	(323,250)	(2,123,923)	(1,314,497)
Payments for interfund services used	(1,649,091)	(1,093,763)	(1,211,139)	(790,082)	(185,588)	(4,929,664)	(942,794)
Net cash provided (used) by operating activities	1,173,663	5,372,093	(132,603)	342,404	383,538	7,139,095	996,478
<b>Cash Flows From Noncapital Financing Activities</b>							
Transfers from other funds	-	700,000	-	-	-	700,000	1,741,928
Transfers to other funds	(265,205)	(167,099)	(90,205)	(265,204)	-	(787,713)	(1,741,928)
Receipts from miscellaneous revenues	34,418	144,481	5,932	5,584	88,788	279,204	12,465
Net cash provided (used) by noncapital financing activities	(230,787)	677,382	(84,273)	(259,620)	88,788	191,491	12,465
<b>Cash Flows From Capital and Related Financing Activities</b>							
Proceeds from capital debt	-	2,439,211	-	-	-	2,439,211	-
Principal paid on capital debt	(51,344)	(2,958,824)	-	(58,585)	(114,401)	(3,183,154)	-
Interest paid on capital debt	(1,939)	(3,824,628)	-	(1,904)	(70,677)	(3,899,147)	-
Purchases of capital assets	(1,169,322)	(6,040,147)	-	(276,657)	945	(7,485,181)	(717,418)
Proceeds from sales of capital assets	4,900	(130,115)	-	-	(9,017)	(134,232)	-
Net cash provided (used) by capital and related financing activities	(1,217,706)	(10,514,503)	-	(337,146)	(193,149)	(12,262,503)	(717,418)
<b>Cash Flows From Investing Activities</b>							
Proceeds from sale and maturity of investments	3,288,042	4,309,810	-	-	-	7,597,852	2,973,048
Purchase of investments	(3,869,047)	(4,077,240)	-	-	-	(7,946,287)	(3,276,541)
Interest and dividends received	132,696	201,978	60,395	36,708	25,871	457,648	47,222
Net cash provided (used) by investing activities	(448,309)	434,548	60,395	36,708	25,871	109,213	(256,271)
Net increase (decrease) in cash and cash equivalents	(723,138)	(4,030,479)	(156,481)	(217,654)	305,048	(4,822,704)	35,253
Balances - beginning of year	8,753,224	14,555,936	2,737,345	2,982,484	1,968,910	30,997,899	9,398,845
Balances - end of the year	\$8,030,086	\$10,525,457	\$ 2,580,864	\$ 2,764,830	\$ 2,273,958	\$ 26,175,195	\$ 9,434,099
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating Income	\$ 154,299	\$ 3,126,078	\$ (90,246)	\$ 136,027	\$ 161,956	\$ 3,488,114	\$ 664,140
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	1,058,047	3,461,372	11,829	224,112	144,223	4,899,583	693,893
Changes in assets and liabilities:							
Change in accounts receivable	(49,728)	(125,113)	(41,657)	1,103	(218)	(215,613)	(5,317)
Change in deposits receivable	-	(43,953)	-	-	-	(43,953)	-
Change in due from other governments	-	252,111	-	-	21,399	273,510	-
Change in inventories	-	-	-	-	(11,417)	(11,417)	(1,730)
Change in prepaids	(420)	1,119	(75)	-	351	975	(72,850)
Change in deferred outflows	(23,586)	(381)	(207)	36	(3,973)	(28,112)	(3,955)
Change in accounts payable	(5,134)	(1,281,983)	13,196	6,748	73,435	(1,193,738)	(188,047)
Change in deposits	37,450	-	10,000	-	4,243	51,692	-
Change in retainage	-	43,953	-	(8,007)	-	35,946	-
Change in compensated absences	4,410	4,049	7,700	6,183	5,775	28,118	18,260
Change in asset retirement obligation	30,000	-	-	-	-	30,000	-
Change in pension obligation	(37,061)	(72,862)	(51,834)	(32,343)	(22,393)	(216,493)	(136,176)
Change in deferred inflows	5,387	7,702	8,691	8,546	10,157	40,483	28,261
Net cash provided (used) by operating activities	\$1,173,663	\$ 5,372,093	\$ (132,603)	\$ 342,404	\$ 383,538	\$ 7,139,095	\$ 996,478
<b>Cash Reconciliation</b>							
Actual Balance - end of year	\$8,030,086	\$10,525,457	\$ 2,580,864	\$ 2,764,830	\$ 2,273,958	\$ 26,175,195	\$ 9,434,099
Balance - end of year out of balance	-	-	-	-	-	-	-
<b>Noncash Activities</b>							
Capital contributions	\$ 651,938	\$ -	\$ -	\$ 19,930	\$ -	\$ 671,868	\$ -

The notes to financial statements are an integral part of this statement.  
Note: Totals may not foot due to rounding.

## Notes to the Basic Financial Statements

### Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Oak Harbor have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### **A. Reporting Entity**

The City of Oak Harbor, located in Island County, Washington, was incorporated on May 14, 1915. The City operates under the laws of the state of Washington applicable to an optional code city with a Mayor-Council form of government. The governing body consists of eight elected officials, the mayor and seven council members. The mayor and council members are each elected to serve a four-year term. The City Administrator administers policies and coordinates the activities of the City. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Administrator. The City provides what are considered general government services including public safety, streets, parks and recreation, planning and zoning, permits and inspection, general administrative, water, sanitary sewer collection, solid waste collection and storm drainage services.

The City's Annual Financial Report includes all funds and organizations that are controlled by or dependent on the City. Control by the City was determined on the basis of financial accountability, budget adoption, taxing authority, and resource allocation criteria. Dependence on the City was determined by the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria, as outlined in GASB 1, the combined financial statements do not include the financial position or results of operation for:

***The Oak Harbor Library -***

Although the City has a contract with the Sno-Isle Library System that obligates the City to provide a portion of the insurance and intergovernmental charges for services, the Sno-Isle Library is a separate municipal corporation and is not a component unit of the City.

***North Whidbey Park District -***

The North Whidbey Park and Recreation District is a separate corporation with an independently elected Board of Directors.

#### **B. Government-wide and Fund Financial Statements**

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type.

*Government-wide financial statements* display information about the reporting government as a whole. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include indirect cost allocation charges between the City's business-type activities, as well as certain special revenue funds, and the General Fund. The City allocates charges as reimbursement for services provided by the General Fund in support of those functions based on levels of service provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

*The Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

*The Statement of Net Position* presents the financial condition of the City's governmental and business-type activities of the year end. It reports all financial and capital assets including infrastructure and all liabilities, including current and long-term.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, and fiduciary even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

## **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

### **1. Government-Wide and Governmental Funds**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

Property taxes, licenses, and interest associated within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Windjammer Park Project Fund* is a capital project fund for the redevelopment of Windjammer Park.

Additionally, the City reports the following fund types:

*Special Revenue Funds* account for the proceeds of specific revenue sources to finance specific activities as required by law or administration regulation. Their revenues are earmarked to finance certain activities or functions.

*Debt Service Funds* account for resources accumulated and payment made for principal and interest on the general government except those required to be accounted for in another fund.

*Capital Project Funds* account for the acquisition or development of capital facilities for governmental activities. The major sources of revenue are real estate excise taxes, proceeds from general obligation bonds, grants, and contributions from other funds.

## **2. Proprietary Funds**

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

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 City reports the following major proprietary funds:

The *Water Fund* accounts for providing water services. Its revenues are mostly received from service charges and system connection charges. Expenses are for maintenance and operations of a water supply, storage and distribution system.

The *Sewer Fund* accounts for providing sewer services. Its revenues are mostly received from service charges and system connection charges. Expenses are for maintenance and extensions of drainage, sewer service facilities, maintaining sewer collection and transmission systems.

The *Solid Waste Fund* accounts for operations of the collection and transportation of solid waste. Its revenues are received from service charges. Expenses are made up of the cost of collection and disposal of solid waste.

The *Storm Drain Fund* accounts for the operation, construction, and maintenance of the storm water management system.

The *Marina Fund* accounts for the operation, construction, and maintenance of the municipal marina. Revenues consist of service and rental fee income received from visiting boaters and permanent tenants who live onboard moored vessels, in addition to operating transfers. Expenses are for operations, maintenance and repairs of marina infrastructure, and capital upgrades.

Additionally, the City reports the following fund types:

*Internal Service Funds* account for the financing of goods and services provided by one City department or agency to another City department or agency on a cost reimbursement basis. The City has three *Internal Service Funds*:

The *Equipment Repair Fund* accounts for the motor pool operations of the City. Maintenance and operation costs are charged to each user department on a monthly basis.

The *Equipment Replacement Fund* accumulates funds for future purchases of vehicles and equipment. Cash reserves or "sinking funds" are established to fully fund vehicle and major equipment needs at the time of purchase.

The *Facility Replacement Fund* accumulates funds for future repairs on facilities.

The *Technology Replacement Fund* accumulates funds for future purchases of hardware and software.

The *Shop Facility Fund* accounts for the cost of operating the Public Works facility campus and supervision of the various Public Works divisions. Each division that is housed at the facility is charged space rent, with the annual proceeds used to pay maintenance and the overhead.

The City does not currently utilize Trust, Agency, or Permanent funds.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 proprietary funds are charges for goods and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

## **D. Budgetary Information**

### **1. Scope of Budget**

The City prepares a biennial budget in accordance with the Revised Code of Washington (RCW) 35A.34 that is on a basis consistent with accounting principles generally accepted in the United States of America. In compliance with the code, budgets for all funds are established. Budgets established for the proprietary funds are considered "management budgets," and as such, are not required to be reported in the Annual Financial Report.

The budget, as adopted, constitutes the legal authority for expenditures. Appropriations are authorized individually for each of the two years of the biennial budget but must be reviewed by the City Council at the midpoint of the biennial period. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at the fund level of detail. Transfers or revisions between departments or line items within a fund are allowed, but supplemental or additional appropriations to the adopted fund total must be approved by the legislative authority. All appropriations, except for capital projects, lapse at the end of each year within the biennial period. Unexpended resources must be re-appropriated in the subsequent period.

### **2. Amending the Budget**

The Finance Director is authorized to transfer budgeted amounts between departments or line items within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, must be approved by the City Council.

When city council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority 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. Budgetary Compliance**

In 2019, the Senior Center fund reported \$10,463 of expenditures above budgeted appropriations. This was caused by the expensing of \$18,304 for chairs that were donated by the Oak Harbor Senior Center Foundation.

The Windjammer Park fund reported \$494,372 of expenditures above budgeted appropriations. This was caused by capital cost being greater than budgeted.

The Shop Facility fund report \$34,620 of expenditures above budgeted appropriations. This was caused by depreciation expense, which is an unbudgeted item.

Though specific line items may be exceeded, no fund's appropriation total can be legally exceeded. It should be noted, however, that the "Statement of Revenues, Expenditures and Changes in Fund Balances" including the comparisons of "Budget and Actual," could be misinterpreted due to its format and, by so doing, lead one to believe that budgeted expenditures have been exceeded. The City budgets not only expenditures but also the full amount of "Beginning Fund Balances" so as to maintain a budget balance between receipts and disbursements. In addition, the City does not budget for depreciation of fixed assets due to the non-cash nature of this expense. By increasing or decreasing expenditure appropriations by the budget values for these items, it can be seen that only the Senior Center, Windjammer Park and the Shop Facility funds have exceeded their legally established appropriations.

### **4. Deficit Fund Net Position**

The City had no funds with deficit net position.

## **E. Assets, Liabilities, Fund Balance, and Net Position**

### **1. Cash and Cash Equivalents**

It is the City's policy to invest all temporary cash surpluses (see Note 3 - Deposits and Investments). As of December 31, 2019, the Finance Director was holding \$45,416,158 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds based upon the fund's average cash balance. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The City also invests funds with the Washington State Local Governmental Investment Pool (LGIP). The City considers these funds to be cash and cash equivalents due to their highly liquid nature.

### **2. Investments**

In accordance with GASB 79, qualifying short-term investments in external 2a7-like pools with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. In accordance with GASB 31, all other investments are stated at fair value. The City uses quoted market prices at December 31, 2019 to establish the fair market value of investments and adjusts the carrying value accordingly. Investments are allocated to individual high-balance funds based on the fund's prorated percentage of cash balance at year end. As of December 31, 2019, the City had \$15,059,521 in investments (see Note 3 - Deposits and Investments).

### **3. Receivables**

Taxes receivable consists of property taxes and related interest and penalties (see Note 4 - Property Taxes). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

The City has established an allowance for doubtful accounts for receivables originating from the City's contracted municipal court operations. This allowance is determined by an analysis of historical collectability, with a multi-year average being applied to the total outstanding balance of municipal court receivables.

**4. Amounts Due To and From Other Funds and Governmental Units, Interfund Loans and Advances Receivable**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A separate schedule of interfund loans receivable and payable is furnished in Note 14 - Interfund Balances and Transfers.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**5. Inventories**

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued by the FIFO method (which approximates the market value).

**6. Restricted Assets and Liabilities**

These accounts contain resources for customer deposits, construction and debt service, including current and delinquent special assessments receivable, if any, in enterprise funds. The related liabilities are held in deposits and the related net position is shown as restricted for capital outlay and debt service. Specific debt service reserve requirements are described in Note 10 - Long-term Debt.

The restricted assets of the enterprise funds are composed of the following:

<b>2019</b>	
Capital projects	\$ 242,134
Customer deposits	175,465
Debt service	257,000
<b>Total restricted cash</b>	<b>\$ 674,599</b>

**7. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, pathways, street lights) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

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 are no longer included as part of the capitalized value of the assets constructed due to the early implementation of GASB 89.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<b>Asset</b>	<b>Years</b>
Buildings and improvements	10-50
Improvements other than buildings	10-50
Machinery and equipment	5-25
Vehicles	5-10
Utility systems	25-70
Infrastructure	20-70

Details of capital assets are furnished in Note 5 - Capital Assets and Depreciation.

#### **8. Deferred Inflows of Resources**

Deferred inflows of resources include amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion (availability) has not been met.

#### **9. Accrued Liabilities**

Accrued liabilities are reported in the government-wide financial statements. Also, all payables and accrued liabilities from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities, those once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds.

#### **10. Custodial Accounts**

These accounts reflect the liability for net monetary assets being held by the City in its trustee or agency capacity.

#### **11. Unearned Revenues**

Unearned revenues consist of amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

#### **12. Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, and proprietary fund financial statements. In governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in the General Long-term Debt Account Group. In proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

City employees accumulate vacation and sick leave on a monthly basis. Employees earn vacation at a rate of a certain number of hours per year. The number of hours per year depends upon length of service. Annual vacation may be accumulated to a maximum of two years accrual. Sick leave for all employees is earned at a rate of one day per month.

At termination of employment, certain employees with required length of service may receive cash payment for accumulated vacation and a percentage of sick leave with five (5) or more years of service. The payment is based on current wages at the time of termination of service.

### **13. Long-term Debt**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financing uses (see Note 10 - Long-term Debt).

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **14. Other Post-Employment Benefits**

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred (see Note 17 – OPEB).

### **15. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value (see Note 7 – Pension Plans).

### **16. Fund Balance Classification Policies and Procedures**

Fund balance equals the difference between the assets and liabilities reported in a governmental fund. Implemented by the City by ordinance in 2011, GASB 54 eliminates the use of the terms “reserved” and “designated” in the reporting of fund balance, and replaces those terms with five new categories for classifying fund balance as follows:

**Nonspendable Fund Balance** — Includes amounts either not in spendable form, or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.

**Restricted Fund Balance** — Reflects the same definition as restricted net position: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds, debt service funds, and program funds funded with federal program dollars.

**Committed Balance** — The City considers committed fund balances to be those amounts that are committed for specific purposes by the adoption of an ordinance by City Council. Amounts classified as “committed” are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the City Council removes or changes the limitation by adoption of an ordinance. Action to constrain resources must occur prior to year end; however, the amount can be determined in the subsequent period.

Assigned Fund Balance — The City considers amounts that are intended by the city to be used for specific purposes, but are neither restricted nor limited, to be reported as assigned fund balance. The City Council, via its adopted policy, delegates the authority to assign amounts to be used for specific purposes to the Finance Director for the purpose of reporting these amounts in the annual financial statements.

Assigned fund balance includes:

- (a) For the General Fund, these are the amounts assigned by the Finance Director intended to be used for specific purposes. The amounts reported as assigned do not result in a deficit in unassigned fund balance.
- (b) For all governmental funds (other than General Fund), these are all remaining positive amounts (except for negative balances) that are not classified as nonspendable and are neither restricted nor committed. However, if there is a negative balance after classifying amounts as nonspendable, restricted or committed, the fund would report a negative amount as unassigned and zero to be reported as assigned.

Unassigned Fund Balance — The City considers residual amounts that are otherwise not constrained at all will be reported in the general fund. These are technically available for any purpose. Only the General Fund can report a positive "unassigned fund balance."

### ***17. Fund Balance Spending Order***

When both restricted and unrestricted fund balance is available for an expenditure to be incurred for a certain purpose, unless legal requirements disallow it, the City will spend the most restricted dollars before less restricted in the following order:

1. Nonspendable – if the funds become spendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

### 18. Details of Fund Balance Classification

The City has elected to present the components of fund balance, in aggregate, on the face of the financial statements. Information for all detailed components of fund balance reflecting specific purpose information, including the separate presentation of nonspendable fund balance is as follows:

	General Fund	Waterfront Redevelopment Fund	Other Governmental Funds	Total
<b>Fund Balances:</b>				
<b>Unspendable for:</b>				
Prepays	\$ 148,988		\$ 458	\$ 149,446
<b>Restricted for:</b>				
Drug Seizure Program	10,714			10,714
Public Safety	3,006			3,006
Street Surface Improvements			3,216,012	3,216,012
Arterial Traffic Improvements			1,177,929	1,177,929
Transportation Capital Improvements			911,600	911,600
Paths And Trails Improvements			15,924	15,924
Tourism Promotion			741,850	741,850
Park Improvement Programs	1,217,393		220,483	1,437,876
Capital Facilities Plan			2,665,245	2,665,245
Senior Services Program			40,000	40,000
<b>Committed to:</b>				
Park Improvement Programs	287,141			287,141
Community Art			150,540	150,540
Senior Services Program			59,885	59,885
Municipal Pier Capital Project			75,000	75,000
Windjammer Park		337,808		337,808
Stabilization Arrangement	1,530,804			1,530,804
<b>Assigned to:</b>				
Street Surface Improvements	-	-	180,000	180,000
Office Operations	2,350	-	-	2,350
Whidbey Marathon Operating Funds	-	-	-	-
Council Specified Expenditures	1,384,850	-	-	1,384,850
<b>Unassigned:</b>				
	7,273,506	-	-	7,273,506
<b>Total Fund Balances</b>	<b>\$ 11,858,753</b>	<b>\$ 337,808</b>	<b>\$ 9,454,926</b>	<b>\$ 21,651,487</b>

Note: Totals may not foot due to rounding.

### F. General Fund Stabilization Arrangement

On July 3, 2012, the City Council of the City of Oak Harbor passed Ordinance #1630 establishing a General Fund Revenue Stabilization Fund. The City Council's intent of this ordinance is to create a stabilization arrangement, as described in GASB 54, for the purpose of identifying, reserving, and accumulating unexpended General Fund resources for use in mitigating impacts of non-routine unanticipated General Fund revenue shortfalls, budgetary imbalances, and shortages in working capital.

On December 4, 2018, the City passed Ordinance #1843, amending section 3.09 General Fund Revenue Stabilization Fund of the Oak Harbor Municipal Code.

The Ordinance addresses the missing language for repayment after the use of funds and how one-time revenues should be treated. It also reduces the transfer to the General Fund Revenue Stabilization Fund

to an amount equal to 10% of the General Fund Revenues. This combined with the 16.67% of the General Fund balance that is retained allows for reserves at a level Government Financial Officers Association (GFOA) and Municipal Research and Services Center (MRSC) considers best practice.

Requirements for additions - There shall be deposited into the General Fund Revenue Stabilization Fund contributions from the General Fund in amounts determined by the city council. Such City Council approved contributions may consist of:

- (a) General Fund resources identified in the adopted budget for a fiscal year or any year of a fiscal biennium as contributions to the General Fund Revenue Stabilization Fund;
- (b) General Fund revenues in amounts greater than anticipated in the budget for a fiscal year or any year of a fiscal biennium;
- (c) Other General Fund resources deemed appropriate by the city council.

The city will maintain general fund revenue stabilization fund reserves at a level equal to at least 10% of the total fiscal year ending actual general fund revenues, excluding any significant one-time revenue. Needed transfers will occur as part of the year end procedures and prior to final closure of the fiscal year. The purpose of the fund is to sustain city services in the event of a catastrophic event such as a natural or manmade disaster (e.g., earthquake, windstorm, flood, terrorist attack), or a major downturn in the economy.

These reserved funds may be appropriated only by a vote of not less than four members of the city council or the unanimous vote of a legal quorum. If the funds are approved for use, the city will begin to replenish these reserves at the end of the biennium if a surplus exists, but no later than the biennium following their use.

As of December 31, 2019, the cash balance for the Stabilization arrangement is \$1,530,804.

### **Note 2 – Stewardship, Compliance, and Accountability**

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

### **Note 3 – Deposits and Investments**

The City of Oak Harbor'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).

All surplus cash is invested in accordance with an investment policy approved by Oak Harbor City Council. The investment policy has been certified by the Municipal Treasurer's Association and is in compliance with state law. Qualifying investments include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit and repurchase agreements.

The Washington State Local Government Investment Pool (LGIP) investments are considered cash equivalents because they can be withdrawn with one day's notice.

The following is reconciliation of cash and cash equivalents as shown in the Government-wide Statement of Net Position as of December 31, 2019:

<b>Cash Reconciliation</b>	<b>Amount</b>
<b>Account Statements</b>	
Bank balances	\$ 34,220,809
Washington State Local Gov. Inv. Pool	19,259,217
<b>Total</b>	<b>\$ 53,480,026</b>
<b>Financial Statements</b>	
Cash and cash equivalents	\$ 51,649,486
Outstanding bank items	1,833,590
Cash on hand	(3,050)
<b>Total</b>	<b>\$ 53,480,026</b>

Note: Totals may not foot due to rounding.

The City measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

The LGIP is managed by the Office of the State Treasurer (OST). The LGIP is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 60 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The City has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official, an Advisory Committee meets quarterly to advise the State Treasurer on issues regarding the LGIP, monthly statement enclosures detailing portfolio breakdown and earnings information sent to participants, and quarterly newsletters that include a compliance report and quarterly financials. Financial reports are available at the State Treasurer's Office, P.O. Box 40200, Olympia, Washington, 98504-2000.

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform OST of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transaction is made, except for funds transmitted by automated clearing house (ACH). Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. on the day of the transaction, other than those by ACH. However, participants may complete transactions greater than one million dollars when notification is made between 9 a.m. and 10 a.m., at the sole discretion of OST. ACH transactions require notification no later than 2 p.m. on the prior business day. All participants are required to file documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

As of December 31, 2019 the City held the following investments at fair value:

Investments	Valuation Method	Fair Value	Maturity		
			Under 1 Year	1 - 2 Years	Over 2 Years
Federal Home Loan Bank	Level 2	\$ 7,042,240	\$ 6,018,692	\$ 1,023,548	\$ -
Federal Home Loan Mortgage Corp	Level 2	6,008,343	4,999,885	1,008,458	-
Federal National Mortgage	Level 2	2,008,938	2,008,938		-
<b>Total investments by fair value</b>		<b>\$15,059,521</b>	<b>\$13,027,515</b>	<b>\$ 2,032,006</b>	<b>\$ -</b>

Note: Totals may not foot due to rounding.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City of Oak Harbor would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's Investment Policy requires that all security transactions entered into by the City of Oak Harbor will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third-party custodian. All of the City's securities at year end were held in safekeeping by a third-party custodian.

*Credit Risk.* Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The City's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The credit ratings on securities held by the City on December 31, 2019 were AA+ by Standard and Poor.

*Concentration of Credit Risk.* The City diversifies its investments by security type and institution. 100% of the City's portfolio may be invested in US Treasury Notes, Bonds or Certificates, US Government Sponsored Corporations, or the State Investment Pool. With the exception of U.S. Treasury securities and authorized pools, the City's investment policy does not allow for an investment in any one issuer that is in excess of 50% of the City's total investment portfolio.

*Interest Rate Risk.* As a means of limiting its exposure to interest rate risk, the City's policy requires that it diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 60 days.

#### **Note 4 – Property Taxes**

The Island County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed
April 30	First of two equal installment payments are 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 taxes are recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which they apply are recorded as deferred inflow and recognized as revenue of the

period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. The City of Oak Harbor's maximum property tax levy rate has been reduced from \$3.60 to \$3.10 - the amount of this reduction directed to supporting the Sno-Isle regional library.

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

The City's regular levy for 2019 was \$2.09942 per \$1,000 on an assessed valuation of \$2,063,440,933 for a regular levy of \$4,332,030.

#### **Note 5 – Capital Assets and Depreciation**

Governmental-type capital assets activity for the year ended December 31, 2019 was as follows:

Governmental Activities:	Beginning Balance			Ending Balance 12/31/2019
	1/1/2019	Increases	Decreases	
<b>Capital assets not being depreciated:</b>				
Land	10,835,037	23,367	(19,200)	10,839,204
Construction in progress	7,307,857	5,815,936	(12,566,165)	557,628
Intangible assets	50,000	-	-	50,000
<b>Total capital assets not depreciated:</b>	<b>18,192,895</b>	<b>5,839,303</b>	<b>(12,585,365)</b>	<b>11,446,833</b>
<b>Assets depreciated:</b>				
Buildings	10,947,339	-	-	10,947,339
Capital lease	-	-	-	-
Improvements & infrastructure	35,797,518	12,482,700	-	48,280,218
Machinery & equipment	13,282,021	1,374,313	(87,656)	14,568,678
<b>Total capital assets depreciated:</b>	<b>60,026,878</b>	<b>13,857,013</b>	<b>(87,656)</b>	<b>73,796,235</b>
<b>Less accumulated depreciation:</b>				
Buildings	(5,932,932)	(223,232)	-	(6,156,164)
Capital lease	-	-	-	-
Improvements & infrastructure	(26,461,830)	(936,909)	-	(27,398,739)
Machinery & equipment	(9,268,503)	(736,914)	85,215	(9,920,202)
<b>Total accumulated depreciation:</b>	<b>(41,663,265)</b>	<b>(1,897,055)</b>	<b>85,215</b>	<b>(43,475,105)</b>
<b>Total capital assets depreciated (net):</b>	<b>18,363,613</b>	<b>11,959,958</b>	<b>(2,441)</b>	<b>30,321,130</b>
<b>Governmental activities total capital assets (net):</b>	<b>36,556,508</b>	<b>17,799,261</b>	<b>(12,587,806)</b>	<b>41,767,963</b>

Note: Totals may not foot due to rounding.

Depreciation expense for the various components of governmental activities is as follows:

<b>Governmental Activities:</b>	
General governmental	\$ 27,551
Public safety	90,877
Transportation	701,038
Natural & economic environment	10,261
Social Services	22,241
Cultural and recreational	351,194
Internal service	693,893
<b>Total depreciation expense - governmental activities</b>	<b>\$ 1,897,055</b>

Note: Totals may not foot due to rounding.

Business-type capital assets activity for the year ended December 31, 2019 was as follows:

<b>Business-type Activities:</b>	<b>Beginning Balance</b>			<b>Ending Balance</b>
	<b>1/1/2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>12/31/2019</b>
<b>Capital assets not being depreciated:</b>				
Land	5,109,166	245,201	-	5,354,367
Construction in progress	528,096	1,681,053	(1,860,652)	348,497
<b>Total capital assets not depreciated:</b>	<b>5,637,262</b>	<b>1,926,254</b>	<b>(1,860,652)</b>	<b>5,702,864</b>
<b>Capital assets being depreciated:</b>				
Buildings	136,858,338	6,150,403	(130,843)	142,877,899
Improvements	72,762,696	1,976,009	(107,852)	74,630,854
Machinery & equipment	4,666,952	159,619	(275,794)	4,550,777
<b>Total capital assets depreciated:</b>	<b>214,287,987</b>	<b>8,286,031</b>	<b>(514,489)</b>	<b>222,059,529</b>
<b>Less accumulated depreciation:</b>				
Buildings	(3,045,438)	(2,874,660)	21,807	(5,898,291)
Improvements	(34,206,462)	(1,885,537)	32,393	(36,059,606)
Machinery & equipment	(3,906,979)	(139,386)	265,703	(3,780,661)
<b>Total accumulated depreciation:</b>	<b>(41,158,878)</b>	<b>(4,899,583)</b>	<b>319,904</b>	<b>(45,738,558)</b>
<b>Total capital assets depreciated (net):</b>	<b>173,129,108</b>	<b>3,386,448</b>	<b>(194,585)</b>	<b>176,320,971</b>
<b>Business-type activities total capital assets (net):</b>	<b>178,766,370</b>	<b>5,312,702</b>	<b>(2,055,237)</b>	<b>182,023,835</b>

Depreciation expense for the various components of business activities is as follows:

<b>Business-type Activities:</b>		
Water	\$	1,058,047
Sewer		3,461,372
Solid waste		11,829
Storm drain		224,112
Marina		144,223
<b>Total depreciation expense - business-type activities</b>	<b>\$</b>	<b>4,899,583</b>

Note: Totals may not foot due to rounding.

The City has the following active construction projects as of December 31, 2019:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Wastewater Treatment Plant	\$ 139,778,326	\$ 1,167,796
Crescent Harbor/Regatta Water Main	15,117	24,843
2018 Water Main Replacement	1,144,649	109,330
Waterfront Trail	138,183	132,063
Bridge Transmission Painting/Upgrades	-	364,937
Pasek Sewer Overflow Structure	-	73,197
Goldie Street Stormwater Retrofit	18,177	58,795
Waterfront Pedestrian Upgrades	24,155	16,845
City Well #9 Replacement	2,433	52,796
Windjammer Park Phase 1	12,167,537	180,939
<b>Total</b>	<b>\$ 153,288,577</b>	<b>\$ 2,181,540</b>

Note: Totals may not foot due to rounding.

#### **Note 6 – Asset Retirement Obligations**

For fiscal year 2019, the City implemented GASB Statement No. 83 Certain Asset Retirement Obligations (ARO). This statement requires that recognition of the obligation occur when the liability is both incurred and reasonably estimable. The City has identified three active water wells that meet this requirement.

It is required that wells that are no longer used, needed, or have reached the end of their serviceable life are required, by Washington state law, to be decommissioned by a licensed drilling contractor. The Department of Ecology would be the state agency with jurisdiction over decommissioning water wells. Other regulations for water well decommissioning include WAC 173-160-381, WAC 173-162, and RCW Chapter 18.104 for the Washington Well Construction Act.

This liability is reported based on the best estimate using all available evidence of the current value of outlays expected to be incurred. The most likely amount to decommission these wells was estimated to cost \$10,000 each for a total value of \$30,000.

The following table represents the City's ARO for 2019:

ARO	Remaining Useful Life	Beginning Balance			Ending Balance	
		1/1/2019	Additions	Reductions	12/31/2019	
Well 8	7 years	\$ -	\$ 10,000	\$ -	\$ 10,000	
Well 9	1 year	-	10,000	-	10,000	
Well 11	8 years	-	10,000	-	10,000	
<b>Total</b>		<b>\$ -</b>	<b>\$ 30,000</b>	<b>\$ -</b>	<b>\$ 30,000</b>	

### **Note 7 – Pension Plans**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB 68, *Accounting and Financial Reporting for Pensions* for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$2,631,400)
Pension assets	2,681,337
Deferred outflows of resources	1,031,259
Deferred inflows of resources	(2,416,567)
Pension expense/expenditures	201,826

### **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](http://www.drs.wa.gov).

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

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service,

or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### **Contributions**

The PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. 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 2019 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.83%</b>	<b>6.00%</b>
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.86%</b>	<b>6.00%</b>

The City's actual contributions to the plan were \$376,956 for the year ended December 31, 2019.

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

- With a benefit that is reduced by 3% 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 5% 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 3% 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% and escalate to 15% 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%. 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 2019 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.83%</b>	<b>7.41%</b>
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.86%</b>	<b>7.90%</b>

The City’s actual contributions to the plan were \$545,891 for the year ended December 31, 2019.

**Public Safety Employees’ Retirement System (PSERS)**

**PSERS Plan 2** was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3% per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 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. PSERS Plan 2 members are vested after completing five years of eligible service.

**Contributions**

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2019 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2019		
PSERS Plan 2	7.07%	7.07%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.38%</b>	<b>7.07%</b>
July – December 2019		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.14%</b>	<b>7.20%</b>

The City's actual contributions to the plan were \$19,826 for the year ended December 31, 2019.

**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 – 1.0% 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 0%, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18% of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as 2% 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 3% for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% 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%. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2019		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>
July – December 2019	5.15%	8.59%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.33%</b>	<b>8.59%</b>

The City's actual contributions to the plan were \$188,263 for the year ended December 31, 2019.

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, 2019, the state contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,526,075.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 *Experience Study and the 2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payment.

- 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: 7.40%

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

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

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.40%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5% except LEOFF 2, which has assumed 7.4%). Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% 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% 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 and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2% 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	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
	<b>100.00%</b>	

### Sensitivity of NPL

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4%, 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%) or 1-percentage point higher (8.4%) than the current rate.

Plan	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	(\$2,532,529)	(\$2,022,272)	(\$1,579,557)
PERS 2/3	(4,671,765)	(609,127)	2,724,535
PSERS 2	(89,453)	8,665	85,745
LEOFF 1	170,785	208,770	241,566
LEOFF 2	433,313	2,330,361	3,878,788

### 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, Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Pension (Liabilities) Assets**

At June 30, 2019, the City reported a total pension liability of \$2,631,399 for its proportionate share of the net pension liabilities and a total pension asset of \$2,547,796 for its proportionate share of the net pension assets as follows.

<b>(Liability) Asset</b>	
PERS 1	(\$2,022,272)
PERS 2/3	(609,127)
PSERS 2	8,665
LEOFF 1	208,770
LEOFF 2	2,330,361

The amount of the asset reported above for LEOFF Plan 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:

	<b>LEOFF 1 Asset</b>	<b>LEOFF 2 Asset</b>
Employer's proportionate share	\$208,769	\$2,330,361
State's proportionate share of the net pension asset associated with the employer	1,412,113	1,526,075
<b>Total</b>	<b>\$1,620,882</b>	<b>\$3,856,436</b>

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

<b>Plan</b>	<b>Proportionate Share 6/30/18</b>	<b>Proportionate Share 6/30/19</b>	<b>Change in Proportion</b>
PERS 1	0.053939%	0.052590%	-0.001349%
PERS 2/3	0.063571%	0.062710%	-0.000861%
PSERS 2	0.086340%	0.066631%	-0.019709%
LEOFF 1	0.010376%	0.010562%	0.000186%
LEOFF 2	0.098497%	0.100590%	0.002093%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12% of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88% 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 2019, the state of Washington contributed 39.57% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.43% of employer contributions.

The collective net pension (liability) asset was measured as of June 30, 2019, and the actuarial valuation date on which the total pension (liability) asset is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2019, the City recognized pension expense as follows:

<b>Pension Expense</b>	
PERS 1	31,097
PERS 2/3	164,496
PSERS 2	13,268
LEOFF 1	(14,043)
LEOFF 2	39,189
<b>Total</b>	<b>234,006</b>

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

At December 31, 2019, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(135,105)
Changes of assumptions	-	-
Contributions subsequent to the measurement date	183,466	-
<b>Total</b>	<b>\$ 183,466</b>	<b>\$ (135,105)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 174,516	\$ (130,959)
Net difference between projected and actual investment earnings on pension plan investments	-	(886,641)
Changes of assumptions	15,598	(255,570)
Changes in proportion and differences between contributions and proportionate share of contributions	15,729	(115,769)
Contributions subsequent to the measurement date	281,510	-
<b>Total</b>	<b>\$ 487,353</b>	<b>\$ (1,388,939)</b>

<b>PSERS 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 7,317	\$ (766)
Net difference between projected and actual investment earnings on pension plan investments	-	(15,047)
Changes of assumptions	70	(4,657)
Changes in proportion and differences between contributions and proportionate share of contributions	843	(6,375)
Contributions subsequent to the measurement date	10,907	-
<b>Total</b>	<b>\$ 19,137</b>	<b>\$ (26,845)</b>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(21,643)
Changes of assumptions	-	-
Contributions subsequent to the measurement date	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ (21,643)</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 167,690	\$ (41,906)
Net difference between projected and actual investment earnings on pension plan investments	-	(477,797)
Changes of assumptions	3,839	(262,240)
Changes in proportion and differences between contributions and proportionate share of contributions	77,174	(62,092)
Contributions subsequent to the measurement date	92,599	-
<b>Total</b>	<b>\$ 341,303</b>	<b>\$ (844,035)</b>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>PSERS 2</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2020	(\$29,825)	(\$279,953)	(\$3,037)	(\$5,027)	(\$127,497)
2021	(70,647)	(478,800)	(5,403)	(11,080)	(250,265)
2022	(25,211)	(225,557)	(3,558)	(4,021)	(103,483)
2023	(9,421)	(131,753)	(2,105)	(1,515)	(52,813)
2024	-	(65,249)	(715)		(14,529)
Thereafter	-	(1,784)	(3,797)		(46,745)

## **Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)**

**VFFRPF** is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 450 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes 40% of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

The VFFRPF plan does not issue a stand-alone financial report but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

### **Contributions**

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the Office of the State Actuary. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates for 2019 were as follows:

	<b>Firefighters</b>	<b>EMSD and Reserve Officers</b>
Municipality fee	\$30	\$105
Member fee	30	30

The City's actual contributions to the plan were \$390 for the year ended December 31, 2019. The City has opted to pay members' fees on their behalf. Contributions on behalf of members were \$390 for the year ended December 31, 2019.

In accordance with Chapter 41.24 RCW, the state contributes 40% of the fire insurance premium tax to the plan. For fiscal year 2019, the fire insurance premium tax contribution was \$7.6 million. The City received \$0 of this amount.

### ***Actuarial Assumptions***

The total pension liability for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2017, and rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 2.5%
- Salary increases: N/A
- Investment rate of return: 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2018 valuation report.

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

### ***Discount Rate***

The discount rate used to measure the total VFFRPF pension asset was 7%. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included as assumed 7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7% future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

### ***Long-Term Expected Rate of Return***

The long-term expected rate of return on the VFFRPF pension plan investments of 7.4% 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 and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### **Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
	<b>100.00%</b>	

### **Sensitivity of NPL**

The following presents the City's proportionate share of the VFFRPF net pension asset calculated using the discount rate of 7%, as well as what the City proportionate share of the net pension asset (liability) would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

	<b>1% Decrease (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
VFFRPF	\$85,473	\$133,541	\$172,682

### **Pension Plan Fiduciary Net Position**

Detailed information about the VFFRPF plan's fiduciary net position is available in the separately issued State of Washington CAFR.

### **Pension Assets Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2019, the City reported an asset of \$133,541 for its proportionate share of the VFFRPF plan's net pension asset. The City's proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2019, the City's proportion was 0.19640%.

The VFFRPF collective net pension asset was measured as of June 30, 2019, and the actuarial valuation date on which the total pension asset is based was as of June 30, 2018, with update procedures used to roll forward the total pension asset to the measurement date.

For the year ended December 31, 2019, the City recognized pension expense of (\$32,180). Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

### **Note 8 – Risk Management**

The City of Oak Harbor is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 163 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The City proactively participates in on-going training for staff regarding current practices and risk mitigation procedures in order to effectively limit claims loss exposure. No claims in any of the past three years exceeded the City's insurance coverage. None of the current claims or lawsuits made or expected to be made against the City appear to have any reasonable likelihood of significantly affecting the City's financial situation for 2019.

#### **Note 9 – Short-term Debt**

The City has no outstanding anticipation notes (including anticipation notes that are accounted for as long-term debt), interest-bearing (registered or revenue) warrants, or similar contractual debt in 2019 nor were any issued during the year.

#### **Note 10 – Long-term Debt**

In recent years, the City of Oak Harbor has issued general obligation and revenue bonds to finance capital improvements to the marina and sewer infrastructure. General obligation bonds have been issued for business-type activities and are being repaid from the applicable resources. The City's Limited Tax General Obligation (LTGO) bonds outstanding include amounts issued to fund dredging, capital improvements, and other components of the Marina Revitalization Plan - the repayment of which comes specifically from marina revenues. Revenue bonds are repaid by income received from proprietary fund earnings.

## Bonds

### **General Obligation Bond**

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Debt service is paid from the Debt Service and Marina Fund. Any debt service for voter approved issues is funded with special property tax levies. Debt service for City Council authorized or councilmanic issues is funded from regular property taxes and other general government revenues.

General obligation debt currently outstanding is as follows:

<b>Purpose</b>	<b>Maturity Range</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Amount of Installments</b>
2011 OAKLTGO11 Marina improvements	2030	3.25% - 4.40%	\$2,570,000	\$1,600,000

The annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ending December 31,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ -	\$ -	\$120,000	\$66,340
2021	-	-	125,000	62,440
2022	-	-	125,000	57,440
2023	-	-	135,000	52,440
2024	-	-	140,000	47,040
2025-2029	-	-	780,000	143,520
2030	-	-	175,000	7,700
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,600,000</b>	<b>\$436,920</b>

At December 31, 2019, the City has restricted assets in proprietary funds containing \$257,000 in reserves as required by bond indentures.

### **Revenue Bonds**

Revenue bond indebtedness issued to fund proprietary activities is recorded in the proprietary fund. Debt service payments are made from revenues generated by the proprietary fund.

Revenue bonds currently outstanding are as follows:

<b>Purpose</b>	<b>Maturity Range</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Amount of Installments</b>
2016 OAKWA16 Clean Water Facility	2046	3.13% - 4.00%	\$25,720,000	\$25,720,000

The annual debt service requirements to maturity for revenue bonds are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>
2020	\$0	\$855,191
2021	0	855,191
2022	0	855,191
2023	0	855,191
2024	0	855,191
2025-2029	0	4,275,956
2030-2034	0	4,275,956
2035-2039	6,060,000	4,084,356
2040-2044	13,590,000	2,333,533
2045-2046	6,070,000	297,538
<b>Total</b>	<b>\$25,720,000</b>	<b>\$19,543,295</b>

### **Government Loans**

#### ***Public Works Trust Fund Loans***

The City of Oak Harbor is also liable for balances due to other governments for Public Works Trust Fund (PWTF) loans. Two of these loans were entered into for the replacement of the City's water transmission line, as required by the Washington State Department of Transportation. They have a combined outstanding balance of \$336,429 and the debt service will be repaid from Water Fund revenue. The third loan was for the replacement of the 42" storm drain outfall. The outstanding balance of \$703,017 will be repaid from the Storm Drain Fund revenues.

PWTF loans currently outstanding are as follows:

<b>Purpose</b>	<b>Maturity Range</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Amount of Installments</b>
PW-05-691-042 Water transmission line	2025	0.50%	\$436,642	\$137,887
PW-06-962-031 Water transmission line	2026	0.50%	\$538,900	\$198,542
PW-12-951-048 42" Storm drain outfall	2031	0.25%	\$985,584	\$703,017

The annual debt service requirements to maturity on PWTF debt from direct borrowings and direct placement are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>
2020	\$109,929	\$3,440
2021	109,929	3,037
2022	109,929	2,633
2023	109,929	2,230
2024	109,929	1,827
2025-2029	372,631	4,202
2030-2031	117,170	439
<b>Total</b>	<b>\$1,039,446</b>	<b>\$17,808</b>

**Department of Ecology State Revolving Fund (SRF) Loans**

Department of Ecology loans are payable from revenues generated by the City's Sewer Fund. The loan for the construction of the sewer outfall has an outstanding balance of \$2,378,828, while the remaining loans for the construction of the Clean Water Facility had an outstanding balance of \$97,945,857.

Total SRF loans currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
WQC-2015 OakHar-00110 Sewer outfall	2036	2.70%	\$2,637,085	\$2,378,828
WQC-2015 OakHar-00021 Clean Water Facility	2037	2.70%	\$8,699,275	\$8,278,790
WQC-2016 OakHar-00240 Clean Water Facility	2038	1.90%	\$16,621,795	\$16,165,049
WQC-2017 OakHar-00081 Clean Water Facility	2038	1.60%	\$46,085,262	\$44,833,962
WQC-2018 OakHar-00112 Clean Water Facility	2038	1.20%	\$29,455,620	\$28,668,056

The annual debt service requirements to maturity on SRF debt from direct borrowings and direct placement are as follows:

Year Ending December 31,	Principal	Interest
2020	\$4,574,387	\$1,643,580
2021	4,650,132	1,567,835
2022	4,727,218	1,490,748
2023	4,805,673	1,412,294
2024	4,885,520	1,332,446
2025-2029	25,675,990	5,413,842
2030-2034	27,897,215	3,192,617
2035-2038	23,108,552	827,546
<b>Total</b>	<b>\$100,324,686</b>	<b>\$16,880,905</b>

**Washington State LOCAL Loan**

The Washington State LOCAL loan is paid from a debt service fund. The loan was utilized to upgrade streetlights and lighting fixtures in City Hall, the Police and Fire Departments, the Senior Center, and several parks to energy efficient LED lights.

The LOCAL loan currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
OAK0361-2-1 LED lighting upgrades	2025	2.36%	\$465,837	\$308,922

The annual debt service requirements to maturity on the LOCAL loan debt from direct borrowings and direct placement are as follows:

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>
2020	\$45,837	\$7,386
2021	48,129	6,181
2022	50,535	4,916
2023	53,062	3,589
2024	54,322	2,926
2025	57,038	1,499
<b>Total</b>	<b>\$308,922</b>	<b>\$26,497</b>

**Note 11 – Leases and Contract Obligations**

**Operating Leases**

The City of Oak Harbor leases buildings and equipment under non-cancelable operating leases. Total cost for such leases was \$57,422 for the year ending December 31, 2019. The future minimum lease payments for these leases are as follows:

<b>Year Ending December 31</b>	<b>Amount</b>
2020	28,971
2021	15,521
2022	11,670
2023	5,191
2024	2,951
<b>Total</b>	<b>\$ 64,304</b>

**Capital Leases**

The City has no capital lease agreements and did not enter into any capital lease agreements during 2019.

### **Note 12 – Changes in Long-term Liabilities**

During the year ended December 31, 2019, the following changes occurred in long-term liabilities (inclusive of both portions due within one year and due in more than one year):

<b>Governmental Activities:</b>	<b>Beginning Balance 1/1/2019</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 12/31/2019</b>	<b>Due Within One Year</b>
Debt from direct borrowings and direct payments:					
LOCAL COP	\$ 352,576	\$ -	\$ (43,654)	\$ 308,922	\$ 45,837
Premium	30,982	-	(7,617)	23,365	-
OPEB liability	2,637,199	100,266	(270,923)	2,466,542	58,682
Pension obligation	2,568,938	-	(647,530)	1,921,409	-
Compensated absences	1,661,680	87,832	-	1,749,512	102,504
<b>Government activity long-term liabilities:</b>	<b>\$ 7,251,375</b>	<b>\$ 188,098</b>	<b>\$ (969,723)</b>	<b>\$ 6,469,750</b>	<b>\$ 207,023</b>
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 1,715,000	\$ -	\$ (115,000)	\$ 1,600,000	\$ 120,000
Revenue bonds	25,720,000	-	-	25,720,000	-
Premium	56,592	-	(2,148)	54,444	-
Discount	(12,989)	-	871	(12,118)	-
Total bonds payable:	27,478,603	-	(116,277)	27,362,326	120,000
Debt from direct borrowings and direct payments:					
PWTF loans	1,149,375	-	(109,929)	1,039,446	109,929
SRF loans	100,842,423	2,439,211	(2,956,948)	100,324,686	4,574,387
Asset retirement obligation	-	30,000	-	30,000	10,000
Pension obligation	926,484	-	(216,493)	709,991	-
Compensated absences	276,667	28,118	-	304,785	18,120
<b>Business-type activity long-term liabilities</b>	<b>\$ 130,673,551</b>	<b>\$ 2,497,329</b>	<b>\$ (3,399,647)</b>	<b>\$ 129,771,233</b>	<b>\$ 4,832,436</b>

Note: Totals may not foot due to rounding.

### **Note 3 – Contingencies and Litigations**

The City of Oak Harbor has recorded in its financial statements all material liabilities, including an estimate for situations that have not yet resolved but where, based on available information, management believes it is probable that the City of Oak Harbor will have to make payment. In the opinion of management, the City of Oak Harbor's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

The City of Oak Harbor participates in a number of federal-assisted 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. Other than the instances described above, City of Oak Harbor management believes that such disallowances, if any, will be immaterial.

### **Note 14 – Restricted Components of Net Position**

The government-wide statement of net position reports \$12,868,544 of restricted components of net position which is restricted by statute or enabling legislation.

## **Note 15 – Interfund Balances and Transfers**

### **Interfund Balances**

Due to other funds and due from other funds results from goods issued, work performed, or services rendered to or for the benefit of another fund when cash is not immediately moved between the funds. There were no interfund balances at December 31, 2019.

### **Interfund Transfers**

The primary purpose of interfund transfers is to support the operations of other funds and contribution for capital projects. Interfund transfers at December 31, 2019 were as follows:

<b>Fund</b>	<b>Transfer In</b>	<b>Transfer Out</b>
General	\$ 1,254,174	\$ (214,807)
Waterfront redevelopment	186,342	
Nonmajor governmental	1,274,461	(2,412,457)
Water		(265,205)
Sewer	700,000	(167,099)
Solid Waste		(90,205)
Storm drain		(265,204)
Internal Service	1,741,928	(1,741,928)
<b>Total</b>	<b>\$ 5,156,906</b>	<b>\$ (5,156,906)</b>

### **Interfund Loan Activity**

There were no interfund loans during 2019.

## **Note 16 – Receivable and Payables Balances**

Major receivables of the City's governmental activities come from the State, Island County, and local taxpayers. Major business-type receivables come from utility and marina customer billings. Total receivables coincide with the following statement of net position line items: "Receivable (net)," "Deposits Receivable" and "Due from other governments".

Receivables at December 31, 2019 were as follows:

<b>Receivables:</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Property taxes	\$ 71,745	\$ -	\$ 71,745
Municipal court	779,343	-	779,343
Customer accounts	120	2,541,511	2,541,631
Other accounts	485,570	59,544	545,114
Deposits	340,819	3,962,562	4,303,382
Other taxes	1,141,303	10,577	1,151,880
Grants	133,601	6,488	140,089
Gross receivables	2,952,501	6,580,682	9,533,183
Less: allowance for uncollectible	(680,912)	-	(680,912)
<b>Net total receivables</b>	<b>\$ 2,271,589</b>	<b>\$ 6,580,682</b>	<b>\$ 8,852,271</b>

Note: Totals may not foot due to rounding.

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. Total governmental activities unearned revenue at December 31, 2019 was \$30,963.

**Note 17 – Defined Benefit Other Postemployment Benefit (OPEB) Plan**

**Other Post-employment Benefits (OPEB)**

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2019:

<b>Aggregate OPEB Amounts</b>	
OPEB liabilities	(\$2,466,542)
OPEB assets	-
Deferred outflows of resources	33,273
Deferred inflows of resources	-
OPEB expense/expenditures	(13,177)

**Plan Description**

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a single employer defined benefit healthcare plan administered by the City. The plan, LEOFF Disability, covers the members necessary hospital, medical, vision, dental, and nursing care expenses 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 the City’s employee medical insurance program. 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 plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The City’s actual expenses were \$63,874 for the year ended December 31, 2019.

At December 31, 2019, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	0
Active employees	0
<b>Total</b>	<b>5</b>

**Actuarial Assumptions**

Utilizing the Office of the State Actuary’s (OSA) Alternative Measurement Method (AMM) Online Tool (Tool), the City used the alternative measurement method permitted under GASB 75. The OSA actuarial reports relied upon the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report.

The Tool uses the following assumptions:

<b>Methodology</b>	
Actuarial valuation date	6/30/2019
Actuarial measurement date	6/30/2019
Actuarial cost method	Entry age
Amortization method	Recognized immediately
Asset valuation method	N/A
<b>Assumptions</b>	
Discount Rate <sup>(1)</sup>	
Beginning of measurement year	3.87%
End of measurement year	3.50%
Healthcare trend rates <sup>(2)</sup>	
Medical costs	Initial rate 6% trending down to about 5% in the 2020's
Long-term care	4.50%
Medicare Part B premiums	Approximately 5%, varies by year
Mortality rates (assume 100% male population)	
Base mortality table	RP-2000 mortality table
Age setback	+1 year healthy / -2 years disabled, blended 50%/50% healthy/disabled
Mortality improvements	100% scale BB
Projection period	Generational
Medicare participation rate	100%

<sup>(1)</sup> Source: *Bond Buyer General Obligation 20-Bond Municipal Index*

<sup>(2)</sup> For additional detail on the healthcare trend rates, please see OSA's 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 6.0%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.0%) or 1-percentage point higher (7.0%) that the current rate.

	<b>1% Decrease (5.0%)</b>	<b>Current Healthcare Cost Trend Rate (6.0%)</b>	<b>1% Increase (7.0%)</b>
Total OPEB liability	(\$2,197,057)	(\$2,466,542)	(\$2,781,573)

The following presents the total OPEB liability of the City calculated using the discount rate of 3.5%, 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%) or 1-percentage point higher (4.5%) than the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB liability	(\$2,800,998)	(\$2,466,542)	(\$2,187,186)

**Changes in the Total OPEB Liability**

LEOFF 1	
Total OPEB liability at 1/1/2019	\$ 2,637,199
Service costs	-
Interest costs	100,266
Change in assumptions	(177,317)
Change in benefit terms	-
Estimated benefit payments	(93,606)
Other changes	-
<b>Total OPEB liability at 12/31/2019</b>	<b>\$ 2,466,542</b>

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Payments subsequent to the measurement date	33,273	-
<b>Total</b>	<b>\$ 33,273</b>	<b>\$ -</b>

Deferred outflows of resources of \$33,273 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, 2020.

**Note 18 – Pollution Remediation Obligations**

GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued on November 30, 2006. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Once any one of five specified obligating events occurs, a government entity is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

The City has above-ground fuel tanks at both the Public Works facility and at the city marina. Both fuel tank systems utilize the VeederRoot monitoring system which performs a series of daily tests on the fuel tanks and reports, among other things, any unusual fuel level variances or leakage occurrences in the tanks. The systems have not indicated any leaks or contamination in 2019.

The City owns a municipal landfill site which ceased receiving solid waste materials as of 1980. As required by the Island County Health Department, the City Engineering Department has conducted extensive monitoring of ground water and gas expulsion from 1980 to present. The City previously

prepared a landfill closure plan, conducted Phase I during 1993, with completion of successive Phases implemented through 2003. In compliance with GASB 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the City of Oak Harbor has determined that there is no remaining landfill closure liability as of December 31, 2011. The City does continue to monitor the site for methane.

There have been no obligating events or issues of pollution remediation during 2019.

### **Note 19 – Other Disclosures**

#### **Accounting and Reporting Changes**

Effective in the annual financial statements for 2019, the City implemented the following statements of the Governmental Accounting Standards Board (GASB):

GASB 83 - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible asset.

#### **Subsequent Events**

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.

At the time of the deadline for financial reporting of May 31, 2020, all the data we need to determine what the impact is has not arrived for review. We will be looking at revenue impacts in the form of potential decreases versus the budgeted revenues. We will redo those during the year as more data becomes available.

We are uncertain beyond Governor Inslee's potential timelines but at this time the expected length goes into July 2020 but have been warned of secondary infections potentially increases the time for opening of businesses.

**Required Supplementary Information**

**Pensions**

**Schedule of Proportionate Share**

Year	Employer's proportion of the net pension asset/liability	Employer's proportionate share of the net pension asset (liability)	State's proportionate share of the net pension asset (liability) associated with the employer	Total	Covered payroll	Employer's proportionate share of the net pension asset (liability) as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension asset (liability)
<b>Schedule of Proportionate Share of Net Pension Liability - PERS 1 - As of June 30,</b>							
2019	0.052590%	(\$2,022,272)	NA	(\$2,022,272)	\$7,226,923	27.98%	67.12%
2018	0.053939%	(\$2,408,934)	NA	(\$2,408,934)	\$7,042,527	34.21%	63.22%
2017	0.054960%	(\$2,607,895)	NA	(\$2,607,895)	\$6,817,078	38.26%	61.24%
2016	0.057656%	(\$3,096,399)	NA	(\$3,096,399)	\$6,767,199	45.76%	57.03%
2015	0.054069%	(\$2,828,312)	NA	(\$2,828,312)	\$5,824,538	48.56%	59.10%
<b>Schedule of Proportionate Share of Net Pension Liability - PERS 2/3 - As of June 30,</b>							
2019	0.062710%	(\$609,127)	NA	(\$609,127)	\$6,815,914	8.94%	97.77%
2018	0.063571%	(\$1,085,418)	NA	(\$1,085,418)	\$6,606,037	16.43%	95.77%
2017	0.064857%	(\$2,253,471)	NA	(\$2,253,471)	\$6,363,072	35.41%	90.97%
2016	0.066965%	(\$3,371,635)	NA	(\$3,371,635)	\$6,312,419	53.41%	85.82%
2015	0.058989%	(\$2,107,711)	NA	(\$2,107,711)	\$5,233,775	40.27%	89.20%
<b>Schedule of Proportionate Share of Net Pension Liability - PSERS 2 - As of June 30,</b>							
2019	0.066631%	\$8,665	NA	\$8,665	\$307,172	2.82%	101.85%
2018	0.086340%	(\$1,070)	NA	(\$1,070)	\$338,707	0.32%	99.79%
2017	0.102306%	(\$20,045)	NA	(\$20,045)	\$362,627	5.53%	96.26%
2016	0.096576%	(\$41,043)	NA	(\$41,043)	\$313,078	13.11%	90.41%
2015	0.099662%	(\$18,190)	NA	(\$18,190)	\$291,813	6.23%	95.08%
<b>Schedule of Proportionate Share of Net Pension Liability - LEOFF 1 - As of June 30,</b>							
2019	0.010562%	\$208,770	\$1,412,113	\$1,620,883	\$0	NA	148.78%
2018	0.010376%	\$188,376	\$1,274,174	\$1,462,550	\$0	NA	144.42%
2017	0.010269%	\$155,803	\$1,053,850	\$1,209,653	\$0	NA	135.96%
2016	0.010085%	\$103,904	\$702,806	\$806,710	\$0	NA	123.74%
2015	0.010003%	\$120,558	\$815,453	\$936,011	\$0	NA	127.36%
<b>Schedule of Proportionate Share of Net Pension Liability - LEOFF 2 - As of June 30,</b>							
2019	0.100590%	\$2,330,361	\$1,526,075	\$3,856,436	\$3,532,560	65.97%	119.43%
2018	0.098497%	\$1,999,704	\$1,294,770	\$3,294,474	\$3,258,625	61.37%	118.50%
2017	0.099541%	\$1,381,307	\$896,028	\$2,277,335	\$3,113,818	44.36%	113.36%
2016	0.108453%	\$630,795	\$411,233	\$1,042,028	\$3,285,501	19.20%	106.04%
2015	0.095575%	\$982,320	\$649,516	\$1,631,836	\$2,773,970	35.41%	111.67%
<b>Schedule of Proportionate Share of Net Pension Asset - VFFRPF - As of June 30,</b>							
2019	0.196404%	\$133,541	NA	\$133,541	\$0	NA	135.30%
2018	0.190337%	\$100,582	NA	\$100,582	\$0	NA	127.46%
2017	0.154256%	\$57,229	NA	\$57,229	\$0	NA	119.25%
2016	0.514359%	\$88,310	NA	\$88,310	\$0	NA	108.97%
2015	0.370000%	\$71,915	NA	\$71,915	\$0	NA	110.22%

**Schedule of Employer Contributions**

Year	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
<b>Schedule of Employer Contributions - PERS 1 - As of December 31,</b>					
2019	\$376,956	\$376,956	\$0	\$7,456,249	5.06%
2018	\$366,725	\$366,725	\$0	\$7,093,319	5.17%
2017	\$344,676	\$344,676	\$0	\$6,902,190	4.99%
2016	\$332,568	\$332,568	\$0	\$6,884,216	4.83%
2015	\$293,354	\$293,354	\$0	\$6,143,382	4.78%
<b>Schedule of Employer Contributions - PERS 2/3 - As of December 31,</b>					
2019	\$545,891	\$545,891	\$0	\$7,072,209	7.72%
2018	\$498,162	\$498,162	\$0	\$6,644,660	7.50%
2017	\$444,217	\$444,217	\$0	\$6,474,592	6.86%
2016	\$399,130	\$399,130	\$0	\$6,440,650	6.20%
2015	\$328,398	\$328,398	\$0	\$5,831,914	5.63%
<b>Schedule of Employer Contributions - PSERS 2 - As of December 31,</b>					
2019	\$19,826	\$19,826	\$0	\$277,633	7.14%
2018	\$23,772	\$23,772	\$0	\$346,950	6.85%
2017	\$22,233	\$22,233	\$0	\$333,659	6.66%
2016	\$23,234	\$23,234	\$0	\$352,978	6.58%
2015	\$20,172	\$20,172	\$0	\$311,468	6.48%
<b>Schedule of Employer Contributions - LEOFF 1 - As of December 31,</b>					
2019	\$0	\$0	\$0	\$0	NA
2018	\$0	\$0	\$0	\$0	NA
2017	\$0	\$0	\$0	\$0	NA
2016	\$0	\$0	\$0	\$0	NA
2015	\$0	\$0	\$0	\$0	NA
<b>Schedule of Employer Contributions - LEOFF 2 - As of December 31,</b>					
2019	\$188,263	\$188,263	\$0	\$3,620,215	5.20%
2018	\$178,425	\$178,425	\$0	\$3,398,571	5.25%
2017	\$162,661	\$162,661	\$0	\$3,157,762	5.15%
2016	\$154,848	\$154,848	\$0	\$3,066,293	5.05%
2015	\$162,389	\$162,389	\$0	\$3,215,624	5.05%
<b>Schedule of Employer Contributions - VFFRPF - As of December 31,</b>					
2019	\$390	\$390	\$0	\$0	NA
2018	\$390	\$390	\$0	\$0	NA
2017	\$330	\$330	\$0	\$0	NA
2016	\$390	\$390	\$0	\$0	NA
2015	\$390	\$390	\$0	\$0	NA

Please see Note 7 – Pension Plans in the accompanying Notes to the Financial Statements.

**OPEB*****Schedule of Changes in Total OPEB Liability and Related Ratios***

<b>Schedule of Changes in Total OPEB Liability and Related Ratios</b>		
<b>LEOFF 1</b>		
<b>For the year ended December 31,</b>		
	2019	2018
Total OPEB liability-beginning	\$2,637,199	\$2,723,278
Service costs	-	-
Interest costs	100,266	96,002
Change in assumptions	(177,317)	(98,022)
Change in benefit terms	-	-
Estimated benefit payments	(93,606)	(84,059)
Other changes	-	-
Total OPEB liability-ending	\$2,466,542	\$2,637,199
Covered-employee payroll	-	-
Total OPEB liability as a % of covered payroll	NA	NA

Please see Note 17 – Defined Benefit Other Postemployment Benefit (OPEB) Plan in the accompanying Notes to the Financial Statements.