



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements Audit Report

# City of Oak Harbor

Island County

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

Published December 21, 2015

Report No. 1015878





## Washington State Auditor's Office

December 21, 2015

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

### Report on Financial Statements

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Oak Harbor  
Island County  
January 1, 2014 through December 31, 2014**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, Island County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 4, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 4, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Oak Harbor Island County January 1, 2014 through December 31, 2014

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, Island County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 24 and information on postemployment benefits other than pensions on page 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 4, 2015

## FINANCIAL SECTION

**City of Oak Harbor  
Island County  
January 1, 2014 through December 31, 2014**

### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

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

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

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

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

Statement of Net Position – Proprietary Funds – 2014

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

Statement of Cash Flows – Proprietary Funds – 2014

Notes to Financial Statements – 2014

### REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 OPEB Medical Benefits – Schedule of Funding Progress/Schedule of Employer Contributions – 2014

## **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, 2014. 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 2014 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 2014, as compared to 2013.
- City of Oak Harbor assets exceeded its liabilities at the close of the 2014 fiscal year by \$128.19 million (net position). Of this amount, \$41.74 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.

- Reported net position increased \$3.78 million. The overall net position of governmental activities decreased \$82,482, or -0.21%, during 2014. Net position of business-type activities increased \$3.86 million, or 4.57%, during 2014.

- Total liabilities and deferred inflows increased by \$157,665 or 1.79%.

- Overall, the book value of capital assets increased by \$3.38 million, or 4.13%. Total capital assets from governmental activities decreased \$1.29 million or -4.83%. This net decrease is primarily due to depreciation. Capital assets of business-type activities increased \$4.67 million or 8.46%. This net increase is due to the construction of the wastewater treatment plant and the purchase of two fire trucks, four police cars and two garbage trucks. Additional information on the City's capital assets can be found in Note 5 of this report.

- At the close of the 2014, the City's governmental funds reported combined ending fund balances of \$15.71 million. Approximately 62.23% of this total amount, or \$9.78 million, is available for spending at the government's discretion (committed, assigned, and unassigned fund balances). 47.20% or \$7.42 million of the ending fund balances are recorded in the City's Special Revenue and Capital Project funds.

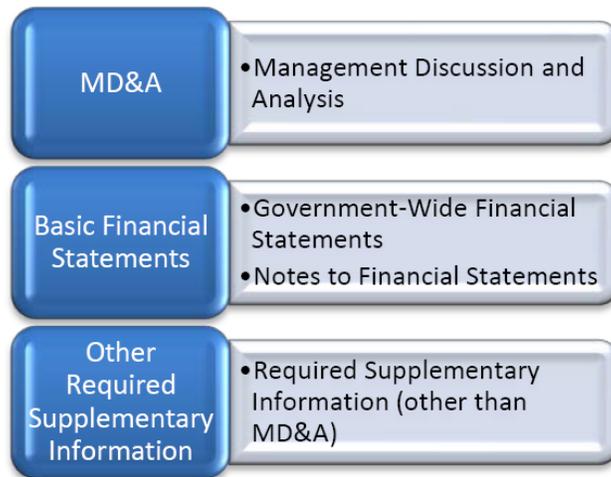
- At the end of the current fiscal year, the ending fund balance for the General Fund was \$8.30 million. Of this amount, 99.89%, or \$8.29 million, is available for spending at the government's discretion.

## **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 in 2014. 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: twenty-one individual governmental funds and eight 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 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, 2014, totals \$128.19 million. Following is a condensed version of the government-wide statement of net position comparing fiscal year 2014 to 2013.

|  | Net Position            |                     |                          |                     |                      |                      |
|--|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
|  | Governmental Activities |                     | Business-type Activities |                     | Totals               |                      |
|  | 2014                    | 2013                | 2014                     | 2013                | 2014                 | 2013                 |
| <b>Assets</b>                              |                         |                     |                          |                     |                      |                      |
| Current                                    | \$16,986,867            | \$15,679,817        | \$34,970,178             | \$35,719,817        | \$51,957,045         | \$51,399,634         |
| Capital assets                             | 25,340,695              | 26,627,151          | 59,839,612               | 55,174,475          | 85,180,307           | 81,801,626           |
| <b>Total assets</b>                        | <b>42,327,562</b>       | <b>42,306,968</b>   | <b>94,809,790</b>        | <b>90,894,292</b>   | <b>137,137,352</b>   | <b>133,201,260</b>   |
| <b>Liabilities</b>                         |                         |                     |                          |                     |                      |                      |
| Long-term                                  | 1,771,849               | 1,780,420           | 5,247,041                | 4,760,549           | 7,018,890            | 6,540,969            |
| Other                                      | 581,384                 | 494,649             | 1,181,975                | 1,613,878           | 1,763,359            | 2,108,527            |
| <b>Total liabilities</b>                   | <b>2,353,233</b>        | <b>2,275,069</b>    | <b>6,429,016</b>         | <b>6,374,427</b>    | <b>8,782,249</b>     | <b>8,649,496</b>     |
| <b>Deferred Inflows of Resources</b>       |                         |                     |                          |                     |                      |                      |
| Unearned revenue                           | 163,529                 | 138,617             | -                        | -                   | 163,529              | 138,617              |
| <b>Total deferred inflows of resources</b> | <b>163,529</b>          | <b>138,617</b>      | <b>-</b>                 | <b>-</b>            | <b>163,529</b>       | <b>138,617</b>       |
| <b>Net Position</b>                        |                         |                     |                          |                     |                      |                      |
| Invested in capital assets                 |                         |                     |                          |                     |                      |                      |
| net of related debt                        | 25,340,695              | 26,627,151          | 54,622,761               | 50,491,677          | 79,963,456           | 77,118,828           |
| Restricted                                 | 5,935,258               | 4,753,989           | 552,051                  | 552,051             | 6,487,309            | 5,306,040            |
| Unrestricted                               | 8,534,847               | 8,512,142           | 33,205,962               | 33,476,137          | 41,740,809           | 41,988,279           |
| <b>Total net position</b>                  | <b>\$39,810,800</b>     | <b>\$39,893,282</b> | <b>\$88,380,774</b>      | <b>\$84,519,865</b> | <b>\$128,191,574</b> | <b>\$124,413,147</b> |

As of the end of 2014, the largest component of the City's total net position at \$79.96 million, or 62.38%, 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 \$6.49 million, or 5.06%, of the City's total net position is subject to legal restrictions.

The net position of governmental activities decreased by \$82,482, a net change of -0.21%. This change is attributable to the decline in charges for services. The net position of business-type activities increased \$3.86 million, a change of 4.56%. The increase was primarily in charges for services, which can be attributed to the effect of increased utility rates to fund future capital projects established in the long range plans.

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.

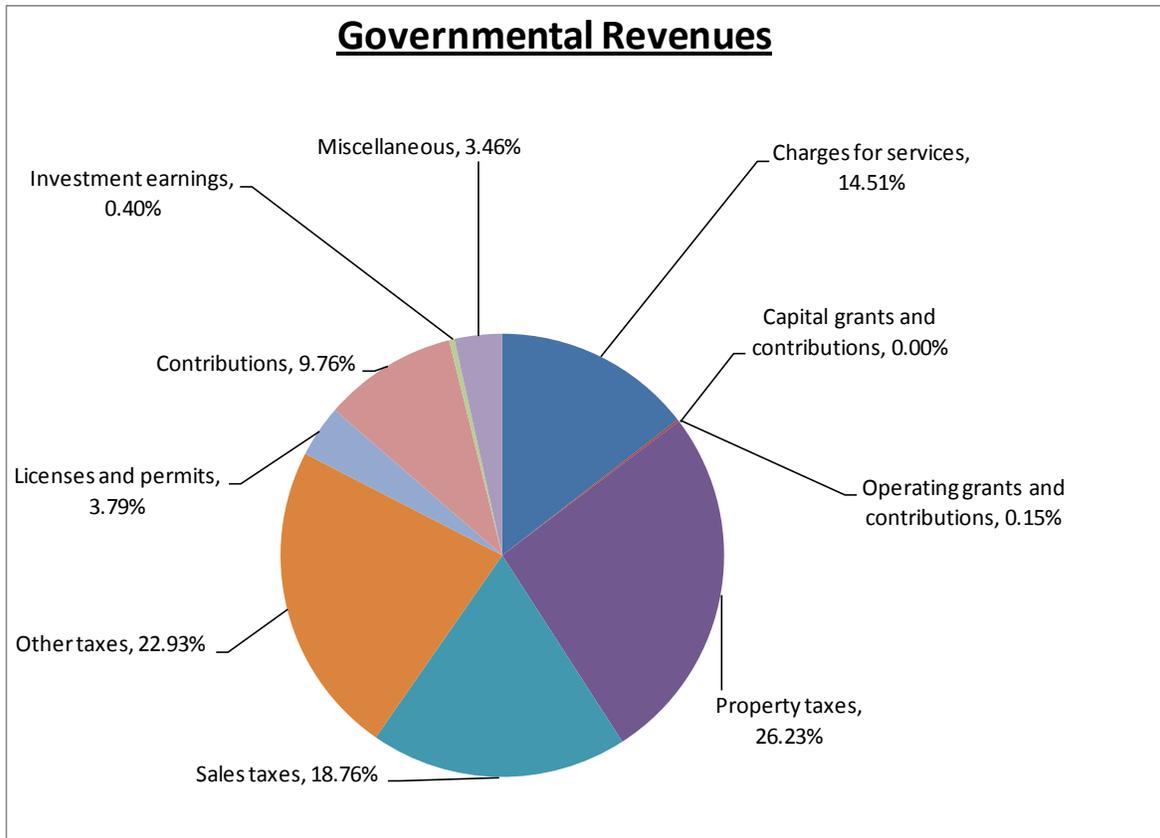
**The Statement of Activities** can serve as a useful indicator of the results of operations for the City. The following table is a condensed version of the Statement of Activities, illustrating the increases or decreases in net position of the City resulting from its operating activities. The table shows the revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type activities for 2014 and 2013:

|   | Changes in Net Position |                     |                     |                     |                    |                    |
|---|-------------------------|---------------------|---------------------|---------------------|--------------------|--------------------|
|   | Governmental            |                     | Business-type       |                     | Totals             |                    |
|   | Activities              | Activities          | Activities          | Activities          | 2014               | 2013               |
| Revenues                                | 2014                    | 2013                | 2014                | 2013                | 2014               | 2013               |
| Program revenues                        |                         |                     |                     |                     |                    |                    |
| Charges for services                    | \$2,167,965             | \$2,251,568         | \$17,676,857        | \$16,050,760        | \$19,844,822       | \$18,302,328       |
| Operating grants and contributions      | 22,770                  | 25,815              | 54,744              | 14,507              | 77,514             | 40,322             |
| Capital grants and contributions        | -                       | -                   | -                   | 180,804             | -                  | 180,804            |
| General revenues                        |                         |                     |                     |                     |                    |                    |
| Property taxes                          | 3,919,076               | 3,976,550           | -                   | -                   | 3,919,076          | 3,976,550          |
| Sales and use taxes                     | 2,803,051               | 2,697,673           | -                   | -                   | 2,803,051          | 2,697,673          |
| Other taxes                             | 3,425,161               | 3,126,661           | -                   | -                   | 3,425,161          | 3,126,661          |
| Other revenues                          | 2,601,886               | 2,447,309           | 450,212             | 185,900             | 3,052,098          | 2,633,209          |
| <b>Total revenues</b>                   | <b>14,939,909</b>       | <b>14,525,576</b>   | <b>18,181,813</b>   | <b>16,431,971</b>   | <b>33,121,722</b>  | <b>30,957,547</b>  |
| <b>Expenses</b>                         |                         |                     |                     |                     |                    |                    |
| Governmental                            |                         |                     |                     |                     |                    |                    |
| General government                      | 2,567,359               | 2,801,242           | -                   | -                   | 2,567,359          | 2,801,242          |
| Judicial                                | 369,051                 | 274,686             | -                   | -                   | 369,051            | 274,686            |
| Public safety                           | 6,928,730               | 7,105,378           | -                   | -                   | 6,928,730          | 7,105,378          |
| Utilities                               | -                       | (388)               | -                   | -                   | -                  | (388)              |
| Transportation                          | 1,994,657               | 3,064,080           | -                   | -                   | 1,994,657          | 3,064,080          |
| Natural and economic environment        | 1,160,855               | 1,171,679           | -                   | -                   | 1,160,855          | 1,171,679          |
| Social services                         | 415,042                 | 398,901             | -                   | -                   | 415,042            | 398,901            |
| Culture and recreation                  | 1,584,099               | 1,467,125           | -                   | -                   | 1,584,099          | 1,467,125          |
| Interest on long-term debt              | -                       | -                   | -                   | -                   | -                  | -                  |
| Other expenses                          | -                       | -                   | -                   | -                   | -                  | -                  |
| Business-type                           |                         |                     |                     |                     |                    |                    |
| Water                                   | -                       | -                   | 4,429,275           | 4,668,065           | 4,429,275          | 4,668,065          |
| Sewer                                   | -                       | -                   | 4,131,137           | 3,632,286           | 4,131,137          | 3,632,286          |
| Solid waste                             | -                       | -                   | 3,074,318           | 3,026,832           | 3,074,318          | 3,026,832          |
| Storm drain                             | -                       | -                   | 1,388,265           | 1,089,543           | 1,388,265          | 1,089,543          |
| Marina                                  | -                       | -                   | 1,300,507           | 1,481,201           | 1,300,507          | 1,481,201          |
| <b>Total expenses</b>                   | <b>15,019,793</b>       | <b>16,282,703</b>   | <b>14,323,502</b>   | <b>13,897,927</b>   | <b>29,343,295</b>  | <b>30,180,630</b>  |
| Change in net position before transfers | (79,884)                | (1,757,127)         | 3,858,311           | 2,534,044           | 3,778,427          | 776,917            |
| Transfers                               | (2,598)                 | (4,275)             | 2,598               | 4,275               | -                  | -                  |
| <b>Change in net position</b>           | <b>(82,482)</b>         | <b>(1,761,402)</b>  | <b>3,860,909</b>    | <b>2,538,319</b>    | <b>3,778,427</b>   | <b>776,917</b>     |
| <b>Net position - beginning</b>         | <b>39,893,282</b>       | <b>41,654,684</b>   | <b>84,519,865</b>   | <b>81,981,546</b>   | <b>124,413,147</b> | <b>123,636,230</b> |
| <b>Net position - ending</b>            | <b>\$39,810,800</b>     | <b>\$39,893,282</b> | <b>\$88,380,774</b> | <b>\$84,519,865</b> | <b>128,191,574</b> | <b>124,413,147</b> |

In governmental activities, total revenues for 2014 show a slight increase when compared to revenues of the previous year. Expenses in governmental activities decreased primarily in transportation. In business-type activities, revenues have increased. The City is currently increasing sewer and water utility rates for the construction of a new wastewater treatment plant and the 4 million gallon water reservoir. Business-type expenditures have increased slightly.

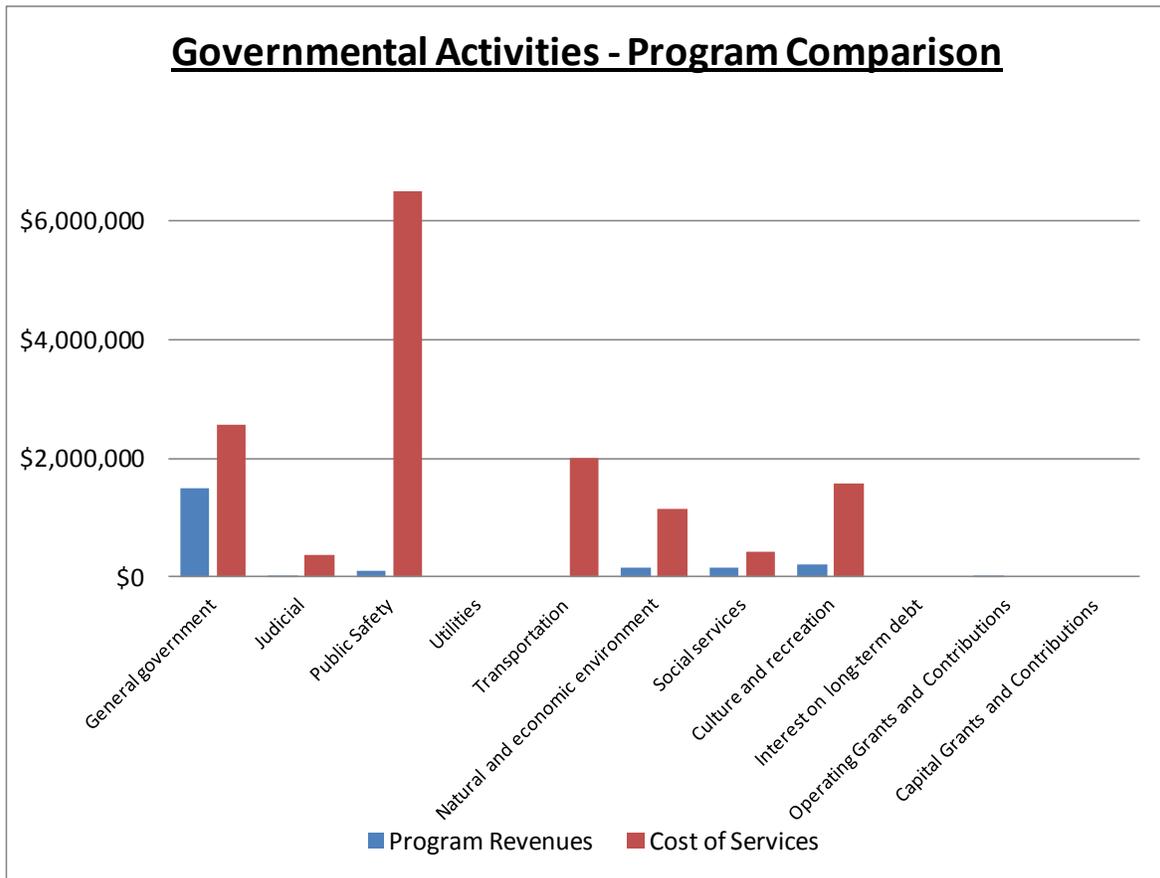
## GOVERNMENTAL ACTIVITIES ANALYSIS

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



In regards to governmental revenue types, taxes account for the largest revenue category, generating \$10.15 million, or 67.92%, of the \$14.94 million total governmental revenues. The majority of tax revenue is received in the General Fund accounting for \$9.39 million, or 75.12%, 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.

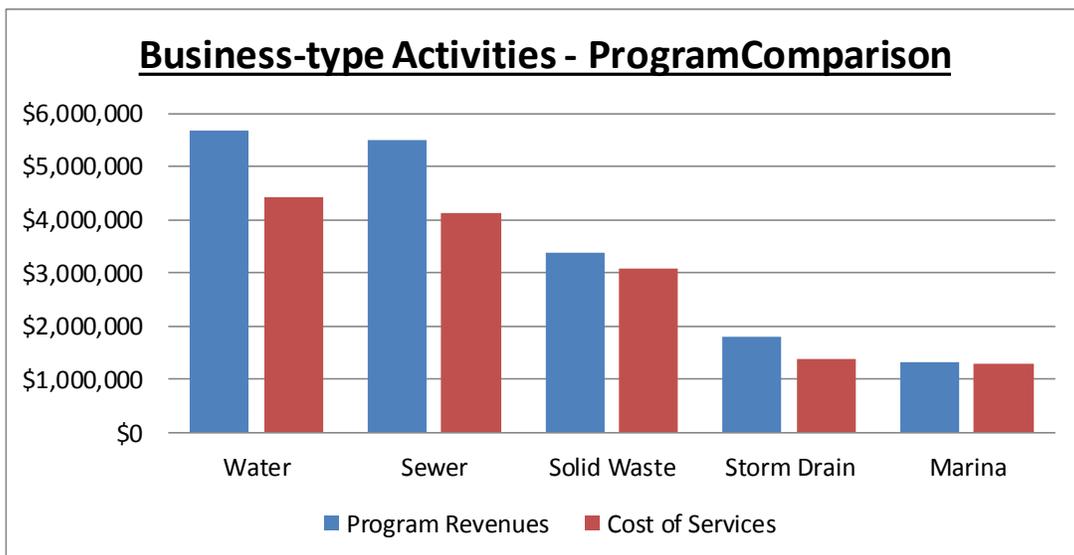
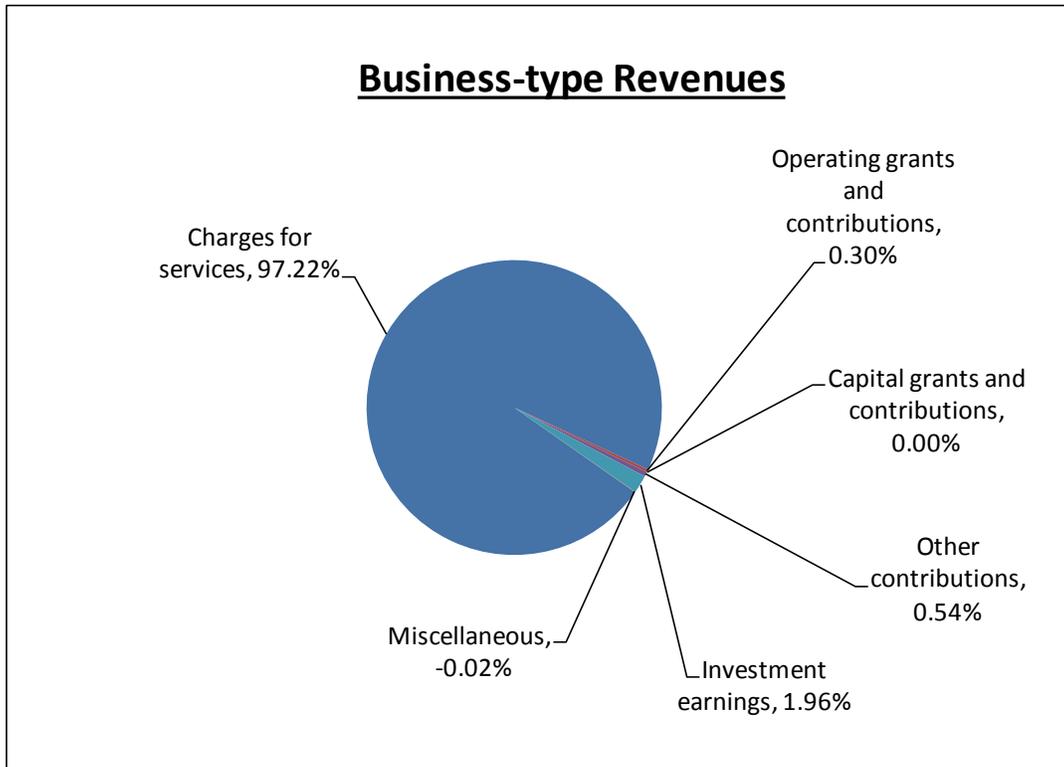
**Expenses:** The following comparative graph illustrates governmental program revenues to program expenses, net of transfers:



General government services encompass a variety of services including executive, financial, legal, judicial, development services, parks, 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. Utility and environment services create a satisfactory living environment for the City's residents. Inspection of private construction projects and coordinating the design of city projects are two examples of physical environment activities. Transportation services provide maintenance of the City's streets, sidewalks, paths and traffic control signs/signals. Economic environment services include land use planning, zoning and community development. Health and human services include the City's support for the county's substance abuse program. 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.

**BUSINESS-TYPE ACTIVITIES ANALYSIS**

**Revenues:** The following graphs illustrate the division of business-type revenues and the comparison of program revenues to program expenses, net of general revenues and transfers:



## 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 and Water Reserve 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. It is anticipated that Water and Water Reserve Fund revenues will increase in future years due to the moderate rate increases implemented in advance of a number of significant improvements to the City's water infrastructure, including the construction of the 4-million gallon water storage tank on the north side of the City and the City's portion of the costs of upgrading the Anacortes water treatment facility.

- **Sewer and Sewer Reserve Fund:** In 2010, a new rate structure was put into place incorporating steady rate increases over a five year period. This steady increase in sewer rates is implemented in advance of the City's considering the replacement of its sewage treatment facility currently located at Windjammer Park. Construction of the new facility is anticipated to begin within the next three years. 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 revenue comes from monthly service charges.

- **Solid Waste and Solid Waste Reserve 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 2014 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.

- **Storm Drain and Storm Drain Reserve 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. In 2010, a new rate structure was put into place incorporating steady rate increases over a five year period, and a reallocation of service costs between different classes of customers. This steady increase in storm drain rates is being implemented in advance of the several storm drain infrastructure to include replacement of the City's 42-inch outfall. The revenues for 2014 are slightly higher.

- **Marina and Marina Reserve 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 completed the Marina Redevelopment Project which included the dredging of waterways to and around the marina, electrical system upgrades, and other dock enhancements. During 2011, the marina rate structure was increased to fund both the debt service incurred by the issuance of a \$2,570,000 Limited Tax General Obligation (LTGO) bond utilized to finance the extensive improvements, and to fund continued operations of the marina facility. Marina revenues have recently been at or below historical averages due to the effect of the slower economy on the boating industry.

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 2014, 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. Rates have been set to reflect these plans.

### **Internal Service Funds:**

The City of Oak Harbor utilizes three 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. The three funds that fall into this category are: Equipment Repair Fund, Equipment Replacement Fund, and the Shop Facility Fund.

- **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.

- **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, Parks, and Development Services. 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 only the General Fund met the requirement to qualify as major fund. 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 \$15.15 million and with total expenditures equaling \$13.96 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 \$166,788, or 2.05%. This is primarily due to uptick in tax revenue. For several years, actual revenues received were consistently higher than actual expenditures which allowed the City to build its fund balance position. With the declining economy consistently following the national trend, current revenues are primarily at or slightly below projected figures. During 2014, most revenues stayed at approximately the same levels as 2013 with the exception of sales taxes and investment earnings. Expenditures stayed fairly consistent in comparison to previous years.

• **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 remained fairly consistent with the prior year. The City anticipates utility fund balances will slightly increase in future years as the City implements steady and consistent rate increases in anticipation of several long-term capital projects. The City anticipates that Marina revenues will remain at or slightly lower than the historical average due to a slowdown in the recreational boating industry.

## **BUDGETARY HIGHLIGHTS**

**General Fund Budget Analysis:** The following is a brief review of the budgeting changes from the adopted to the amended final budget for the General Fund. Please note that budget to actual comparisons is provided in the financial statements. The significant budgetary changes in the General Funds include:

Budgeted General Fund revenues and expenditures increased as the result of an amendment to adjust beginning and ending fund balances to actual resources on hand at January 1, 2014. 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.

## **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 at the end of 2014: general obligation debt, revenue debt, and debt issued by the Washington Public Works Trust Fund. In business-type activities, the City has one outstanding LTGO bond issue in the amount of \$2,145,000 being retired by revenues pledged from the Marina and Marina Reserve Fund, three Public Works Trust Fund Loans for a combined amount of \$1,413,027 which are being retired by revenues pledged from the Water and Water Reserve Fund and Storm Drain and Storm Drain Reserve Fund, and sewer revenue bonds outstanding in the amount of \$1,670,000, which are being retired from revenues pledged from the City's Sewer and Sewer Reserve 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 (\$1,590,666,301), or \$23,859,995, less outstanding general obligation debt originated without a public vote of \$2,145,000 for a total of \$21,714,995.
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 2.5% of the assessed value. For

2014, the City's limit is \$39,766,658, 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.

Additional information on the City's long-term debt can be found in Note 9 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. The City's budget continues to primarily focus on operation and maintenance costs. Annually the City updates the City 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. The City continues to allocate funds for pavement. These funds have normally been incorporated into larger projects to complete the restoration and receive the biggest benefit for the dollars.

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 2014, 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. 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. Accordingly, budgeted sales tax revenues are calculated using a 1% increase escalator index for both 2015 and 2016.

The City continues to experience a moderate demand for single family housing. 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 not facing any foreseeable restrictions or other limitations that would significantly impact 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, 2014**

|  | Primary Government         |                             |                       |
|--|----------------------------|-----------------------------|-----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                 |
| <b>Assets</b>                                      |                            |                             |                       |
| Cash & cash equivalents                            | \$ 7,828,925               | \$ 17,620,266               | \$ 25,449,191         |
| Investments  | 7,136,245                  | 14,870,654                  | 22,006,899            |
| Receivables (net)                                  | 317,231                    | 1,763,848                   | 2,081,079             |
| Due from other governments                         | 777,912                    | 38,256                      | 816,168               |
| Inventories  | -                          | 52,569                      | 52,569                |
| Restricted assets:                                 |                            |                             |                       |
| Cash & cash equivalents                            | 926,554                    | 624,585                     | 1,551,139             |
| Capital assets not being depreciated:              |                            |                             |                       |
| Land   | 9,528,557                  | 7,849,404                   | 17,377,961            |
| Construction in progress                           | 66,308                     | 11,378,368                  | 11,444,676            |
| Intangible assets                                  | 50,000                     | -                           | 50,000                |
| Capital assets net of<br>accumulated depreciation: |                            |                             |                       |
| Buildings and systems                              | 3,673,075                  | 5,906,740                   | 9,579,815             |
| Improvements and infrastructure                    | 11,379,798                 | 31,307,501                  | 42,687,299            |
| Machinery and equipment                            | 642,957                    | 3,397,599                   | 4,040,556             |
| <b>Total assets</b>                                | <b>42,327,562</b>          | <b>94,809,790</b>           | <b>137,137,352</b>    |
| <b>Liabilities</b>                                 |                            |                             |                       |
| Accounts payable                                   | 292,932                    | 431,222                     | 724,154               |
| Accrued interest payable                           | -                          | 33,377                      | 33,377                |
| Other current liabilities                          | 176,862                    | 328,255                     | 505,117               |
| Noncurrent liabilities:                            |                            |                             |                       |
| Due within one year:                               |                            |                             |                       |
| Compensated absences                               | 111,590                    | 44,549                      | 156,139               |
| Other long-term liabilities                        | -                          | 99,572                      | 99,572                |
| Bonds payable, net                                 | -                          | 245,000                     | 245,000               |
| Due in more than one year:                         |                            |                             |                       |
| Compensated absences                               | 974,320                    | 374,762                     | 1,349,082             |
| Other long-term liabilities                        | 797,529                    | 1,313,455                   | 2,110,984             |
| Bonds payable, net                                 | -                          | 3,558,824                   | 3,558,824             |
| <b>Total liabilities</b>                           | <b>2,353,233</b>           | <b>6,429,016</b>            | <b>8,782,249</b>      |
| <b>Deferred Inflows of Resources</b>               |                            |                             |                       |
| Unearned revenue                                   | 163,529                    | -                           | 163,529               |
| <b>Total deferred inflows of resources</b>         | <b>163,529</b>             | <b>-</b>                    | <b>163,529</b>        |
| <b>Net Position</b>                                |                            |                             |                       |
| Net investment in<br>capital assets                | 25,340,695                 | 54,622,761                  | 79,963,456            |
| Restricted for:                                    |                            |                             |                       |
| Public safety                                      | 9,194                      | -                           | 9,194                 |
| Transportation                                     | 3,585,633                  | -                           | 3,585,633             |
| Culture and recreation                             | 859,558                    | -                           | 859,558               |
| Other capital                                      | 1,480,874                  | 81,928                      | 1,562,802             |
| Debt service                                       | -                          | 470,123                     | 470,123               |
| Unrestricted                                       | 8,534,846                  | 33,205,962                  | 41,740,808            |
| <b>Total net position</b>                          | <b>\$ 39,810,800</b>       | <b>\$ 88,380,774</b>        | <b>\$ 128,191,574</b> |

The accompanying notes are an integral part of this statement.

**City of Oak Harbor  
Statement of Activities  
For the Year Ended December 31, 2014**

| Function/Program                            | Net (Expense) Revenue and<br>Changes in Net position |                         |  |  |                            |                             |                       |
|---|--|-------------------------|--|--|----------------------------|-----------------------------|-----------------------|
|   | Program Revenues                                     |                         | Primary Government                       |  |                            |                             |                       |
|   | Expenses   | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities | Business-type<br>Activities | Total                 |
| <b>Primary government</b>                   |  |                         |  |  |                            |                             |                       |
| <b>Governmental activities:</b>             |  |                         |  |  |                            |                             |                       |
| General government                          | \$ 2,567,359   | \$ 1,499,222            | \$ -                                     | \$ -                                   | \$ (1,068,137)             | \$ -                        | \$ (1,068,137)        |
| Judicial                                    | 369,051  | 15,418                  | -  | -                                      | (353,633)                  | -                           | (353,633)             |
| Public safety                               | 6,928,730  | 117,243                 | 14,520                                   | -                                      | (6,796,967)                | -                           | (6,796,967)           |
| Transportation                              | 1,994,657  | -                       | -  | -                                      | (1,994,657)                | -                           | (1,994,657)           |
| Natural and economic environment            | 1,160,855  | 153,129                 | -  | -                                      | (1,007,726)                | -                           | (1,007,726)           |
| Social services                             | 415,042  | 160,666                 | -  | -                                      | (254,376)                  | -                           | (254,376)             |
| Culture and recreation                      | 1,584,099  | 222,287                 | 8,250                                    | -                                      | (1,353,562)                | -                           | (1,353,562)           |
| Interest on long-term debt                  | -  | -                       | -  | -                                      | -                          | -                           | -                     |
| Other governmental expenses                 | -  | -                       | -  | -                                      | -                          | -                           | -                     |
| <b>Total governmental activities</b>        | <b>15,019,793</b>                                    | <b>2,167,965</b>        | <b>22,770</b>                            | <b>-</b>                               | <b>(12,829,058)</b>        | <b>-</b>                    | <b>(12,829,058)</b>   |
| <b>Business-type activities:</b>            |  |                         |  |  |                            |                             |                       |
| Water                                       | 4,429,275  | 5,681,368               | -  | -                                      | -                          | 1,252,093                   | 1,252,093             |
| Sewer                                       | 4,131,137  | 5,482,619               | 9,457                                    | -                                      | -                          | 1,360,939                   | 1,360,939             |
| Solid waste                                 | 3,074,318  | 3,369,108               | -  | -                                      | -                          | 294,790                     | 294,790               |
| Storm drain                                 | 1,388,265  | 1,807,641               | 29,273                                   | -                                      | -                          | 448,649                     | 448,649               |
| Marina                                      | 1,300,507  | 1,336,121               | 16,014                                   | -                                      | -                          | 51,628                      | 51,628                |
| <b>Total business-type activities</b>       | <b>14,323,502</b>                                    | <b>17,676,857</b>       | <b>54,744</b>                            | <b>-</b>                               | <b>-</b>                   | <b>3,408,099</b>            | <b>3,408,099</b>      |
| <b>Total primary government</b>             | <b>\$ 29,343,295</b>                                 | <b>\$ 19,844,822</b>    | <b>\$ 77,514</b>                         | <b>\$ -</b>                            | <b>(12,829,058)</b>        | <b>3,408,099</b>            | <b>(9,420,959)</b>    |
| <b>General revenues:</b>                    |  |                         |  |  |                            |                             |                       |
| Property taxes                              |  |                         |  |  | 3,919,076                  | -                           | 3,919,076             |
| Sales and use taxes                         |  |                         |  |  | 2,803,051                  | -                           | 2,803,051             |
| Business, occupancy and other taxes         |  |                         |  |  | 3,425,161                  | -                           | 3,425,161             |
| Licenses and permits                        |  |                         |  |  | 566,270                    | -                           | 566,270               |
| Grants and other contributions              |  |                         |  |  | -                          | -                           | -                     |
| not restricted to specific programs         |  |                         |  |  | 1,458,744                  | -                           | 1,458,744             |
| Unrestricted investment earnings            |  |                         |  |  | 59,585                     | 97,360                      | 156,945               |
| Miscellaneous                               |  |                         |  |  | 517,287                    | 356,547                     | 873,834               |
| Gain (loss) on sale of assets               |  |                         |  |  | -                          | (3,695)                     | (3,695)               |
| Transfers                                   |  |                         |  |  | (2,598)                    | 2,598                       | -                     |
| <b>Total general revenues and transfers</b> |  |                         |  |  | <b>12,746,576</b>          | <b>452,810</b>              | <b>13,199,386</b>     |
| <b>Change in net position</b>               |  |                         |  |  | <b>(82,482)</b>            | <b>3,860,909</b>            | <b>3,778,427</b>      |
| <b>Net position - beginning</b>             |  |                         |  |  | <b>39,893,282</b>          | <b>84,519,865</b>           | <b>124,413,147</b>    |
| <b>Net position - ending</b>                |  |                         |  |  | <b>\$ 39,810,800</b>       | <b>\$ 88,380,774</b>        | <b>\$ 128,191,574</b> |

The accompanying notes are an integral part of this statement.

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

|  | <b>General<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|---|---|
| <b>Assets</b>  |                         |   |   |
| Cash & cash equivalents  | \$ 4,670,642            | \$ 3,189,317                            | \$ 7,859,959                            |
| Investments  | 3,806,856               | 3,354,683                               | 7,161,539                               |
| Accounts receivables (net)   | 295,940                 | 21,291                                  | 317,231                                 |
| Due from other governments   | 421                     | -                                       | 421                                     |
| Restricted cash  | -                       | 926,554                                 | 926,554                                 |
| <b>Total assets</b>  | <b>8,773,859</b>        | <b>7,491,845</b>                        | <b>16,265,704</b>                       |
| <hr/>  |                         |   |   |
| Total assets and deferred outflows of resources                            | \$ 8,773,859            | \$ 7,491,845                            | \$ 16,265,704                           |
| <hr/>  |                         |   |   |
| <b>Liabilities</b>   |                         |   |   |
| Accounts payable   | \$ 182,364              | \$ 30,575                               | \$ 212,939                              |
| Deposits   | 152,515                 | 24,347                                  | 176,862                                 |
| <b>Total liabilities</b>   | <b>334,879</b>          | <b>54,922</b>                           | <b>389,801</b>                          |
| <hr/>  |                         |   |   |
| <b>Deferred Inflows of Resources</b>                                       |                         |   |   |
| Unearned revenue   | 142,238                 | 21,291                                  | 163,529                                 |
| <b>Total deferred inflows of resources</b>                                 | <b>142,238</b>          | <b>21,291</b>                           | <b>163,529</b>                          |
| <hr/>  |                         |   |   |
| <b>Fund balances</b>   |                         |   |   |
| Restricted   | 9,194                   | 5,926,065                               | 5,935,259                               |
| Committed  | -                       | 1,489,567                               | 1,489,567                               |
| Assigned   | 3,239,328               | -                                       | 3,239,328                               |
| Unassigned   | 5,048,220               | -                                       | 5,048,220                               |
| <b>Total fund balance</b>  | <b>8,296,742</b>        | <b>7,415,632</b>                        | <b>15,712,374</b>                       |
| <b>Total liabilities, deferred inflows of resources, and fund balances</b> | <b>\$ 8,773,859</b>     | <b>\$ 7,491,845</b>                     | <b>\$ 16,265,704</b>                    |

The accompanying notes are an integral part of this statement.

**City of Oak Harbor  
 Reconciliation of the Balance Sheet  
 of the Governmental Funds  
 to the Statement of Net Position  
 December 31, 2014**

Total fund balances—governmental funds \$ 15,712,374

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

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

|   |                     |            |
|---|---------------------|------------|
| Historical cost of assets not being depreciated | \$ 9,644,865        |            |
| Historical cost of assets being depreciated     | 44,819,928          |            |
| Accumulated depreciation                        | <u>(29,124,098)</u> | 25,340,695 |

Investments are adjusted to market value (56,328)

Long-term assets not available to pay for current period expenditures and therefore deferred  
 Other long-term assets 777,491

Some liabilities are not due and payable in the current period and therefore are not reported in the funds, including:

|   |                  |             |
|---|------------------|-------------|
| Accounts payable                          | \$ (79,993)      |             |
| Compensated absences                      | (1,085,910)      |             |
| Other post-employment benefit liabilities | <u>(797,529)</u> | (1,963,432) |

Net position of governmental activities \$ 39,810,800

The accompanying notes are an integral part of this statement.

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

|  | General<br>Fund   | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>  |                   |                                |                                |
| Taxes  | \$ 9,389,644      | \$ 757,312                     | \$ 10,146,956                  |
| Licenses and permits   | 560,719           | 5,551                          | 566,270                        |
| Intergovernmental  | 291,723           | 1,179,787                      | 1,471,510                      |
| Charges for services   | 1,839,441         | 328,524                        | 2,167,965                      |
| Fines and forfeits   | 137,624           | -                              | 137,624                        |
| Interest revenue   | 34,627            | 24,958                         | 59,585                         |
| Miscellaneous  | 245,434           | 116,021                        | 361,455                        |
| <b>Total revenues</b>  | <b>12,499,212</b> | <b>2,412,153</b>               | <b>14,911,365</b>              |
| <b>Expenditures</b>  |                   |                                |                                |
| Current:   |                   |                                |                                |
| General government   | 2,517,388         | -                              | 2,517,388                      |
| Judicial   | 356,751           | -                              | 356,751                        |
| Public safety  | 6,843,817         | -                              | 6,843,817                      |
| Transportation   | -                 | 947,843                        | 947,843                        |
| Natural and economic environm                                | 1,021,553         | 124,385                        | 1,145,938                      |
| Social services  | 24,077            | 395,991                        | 420,068                        |
| Culture and recreation                                       | 1,438,691         | 321                            | 1,439,012                      |
| Capital outlay   | 10,549            | 37,342                         | 47,891                         |
| <b>Total expenditures</b>                                    | <b>12,212,826</b> | <b>1,505,882</b>               | <b>13,718,708</b>              |
| Excess (deficiency) of revenues<br>over (under) expenditures | 286,386           | 906,271                        | 1,192,657                      |
| <b>Other Financing Sources (Uses)</b>                        |                   |                                |                                |
| Transfers in   | -                 | 242,375                        | 242,375                        |
| Transfers out  | (119,598)         | (125,375)                      | (244,973)                      |
| Total other financing<br>sources (uses)                      | (119,598)         | 117,000                        | (2,598)                        |
| <b>Net change in fund balances</b>                           | <b>166,788</b>    | <b>1,023,271</b>               | <b>1,190,059</b>               |
| Fund balances - beginning                                    | 8,129,954         | 6,392,361                      | 14,522,315                     |
| Fund balances - ending                                       | \$ 8,296,742      | \$ 7,415,632                   | \$ 15,712,374                  |

The accompanying notes are an integral part of this statement.

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

Net change in fund balances—governmental funds \$ 1,190,059

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as outlays exceeded depreciation in the current period:

|                |                    |             |
|----------------|--------------------|-------------|
| Capital outlay | \$ 47,891          |             |
| Depreciation   | <u>(1,334,347)</u> | (1,286,456) |

Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the funds:

|                          |  |        |
|--------------------------|--|--------|
| Change in current assets |  | 28,544 |
|--------------------------|--|--------|

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            | \$ (6,645)       |          |
| Change in compensated absences        | 92,225           |          |
| Other post-employment benefit expense | <u>(100,209)</u> | (14,629) |

|   |  |                           |
|---|--|---------------------------|
| Change in net position of governmental activities |  | <u><u>\$ (82,482)</u></u> |
|---|--|---------------------------|

The accompanying notes are an integral part of this statement.

**City of Oak Harbor**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances — Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2014**

|  | Budgeted Amounts    |                     | Actual<br>Amounts   |
|--|---------------------|---------------------|---------------------|
|  | Original            | Final               |                     |
| <b>Revenues</b>  |                     |                     |                     |
| Taxes  | \$ 9,268,306        | \$ 9,468,326        | \$ 9,389,644        |
| Licenses and permits   | 393,150             | 493,150             | 560,719             |
| Intergovernmental  | 297,700             | 297,700             | 291,723             |
| Charges for services   | 1,915,222           | 1,922,692           | 1,839,441           |
| Fines and forfeits   | 119,600             | 119,600             | 137,624             |
| Interest revenue   | 5,700               | 5,700               | 34,627              |
| Miscellaneous  | 251,100             | 251,100             | 245,434             |
| <b>Total revenues</b>  | <b>12,250,778</b>   | <b>12,558,268</b>   | <b>12,499,212</b>   |
| <b>Expenditures</b>  |                     |                     |                     |
| Current:   |                     |                     |                     |
| General government   | 2,469,904           | 2,697,584           | 2,517,388           |
| Judicial   | 353,570             | 353,570             | 356,751             |
| Public safety  | 6,837,872           | 7,016,685           | 6,843,817           |
| Natural and economic environm                                | 982,201             | 1,027,201           | 1,021,553           |
| Social services  | 23,200              | 23,200              | 24,077              |
| Culture and recreation                                       | 1,342,499           | 1,342,499           | 1,438,691           |
| Capital outlay   | -                   | 34,545              | 10,549              |
| <b>Total expenditures</b>                                    | <b>12,009,246</b>   | <b>12,495,284</b>   | <b>12,212,826</b>   |
| Excess (deficiency) of revenues<br>over (under) expenditures | 241,532             | 62,984              | 286,386             |
| <b>Other Financing Sources (Uses)</b>                        |                     |                     |                     |
| Transfers out  | (117,000)           | (117,000)           | (119,598)           |
| Other sources  | 1,500               | 1,500               | -                   |
| <b>Total other financing<br/>sources (uses)</b>              | <b>(115,500)</b>    | <b>(115,500)</b>    | <b>(119,598)</b>    |
| <b>Net change in fund balances</b>                           | <b>126,032</b>      | <b>(52,516)</b>     | <b>166,788</b>      |
| Fund balances - beginning                                    | 3,932,029           | 4,023,809           | 8,129,954           |
| <b>Fund balances - ending</b>                                | <b>\$ 4,058,061</b> | <b>\$ 3,971,293</b> | <b>\$ 8,296,742</b> |

The accompanying notes are an integral part of this statement.

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

|   | Business-Type Activities           |                                    |  |  |                                      |                   |                   | Internal<br>Service<br>Funds |
|---|------------------------------------|------------------------------------|--|--|--------------------------------------|-------------------|-------------------|------------------------------|
|   | Water and<br>Water<br>Reserve Fund | Sewer and<br>Sewer<br>Reserve Fund | Solid Waste and<br>Solid Waste<br>Reserve Fund | Storm Drain and<br>Storm Drain<br>Reserve Fund | Marina and<br>Marina<br>Reserve Fund | Total             |                   |                              |
| <b>Assets</b>                                   |                                    |                                    |  |  |                                      |                   |                   |                              |
| Current assets:                                 |                                    |                                    |  |  |                                      |                   |                   |                              |
| Cash & cash equivalents                         | \$ 4,323,786                       | \$ 6,435,952                       | \$ 1,646,720                                   | \$ 460,285                                     | \$ 328,478                           | \$ 13,195,221     | \$ 4,425,045      |                              |
| Investments                                     | 3,593,083                          | 5,420,049                          | 1,346,007                                      | 375,160  | 529,677                              | 11,263,976        | 3,606,678         |                              |
| Accounts receivables (net)                      | 533,318                            | 588,438                            | 347,594  | 228,674  | 65,824                               | 1,763,848         | -                 |                              |
| Due from other governments                      | -                                  | -                                  | -  | 29,273   | 8,983                                | 38,256            | -                 |                              |
| Inventories                                     | -                                  | -                                  | -  | -  | 24,426                               | 24,426            | 28,143            |                              |
| <b>Total current assets</b>                     | <b>8,450,187</b>                   | <b>12,444,439</b>                  | <b>3,340,321</b>                               | <b>1,093,392</b>                               | <b>957,388</b>                       | <b>26,285,727</b> | <b>8,059,866</b>  |                              |
| Noncurrent assets:                              |                                    |                                    |  |  |                                      |                   |                   |                              |
| Restricted cash                                 | 84,578                             | 213,923                            | 4,700  | -  | 321,384                              | 624,585           | -                 |                              |
| Capital assets not being depreciated:           |                                    |                                    |  |  |                                      |                   |                   |                              |
| Land  | 776,619                            | 2,622,801                          | 201,810  | 1,072,753                                      | 3,175,421                            | 7,849,404         | -                 |                              |
| Construction in progress                        | 6,814,065                          | 3,337,445                          | -  | 1,163,007                                      | -                                    | 11,314,517        | 63,851            |                              |
| Capital assets net of accumulated depreciation: |                                    |                                    |  |  |                                      |                   |                   |                              |
| Buildings and systems                           | 5,187                              | 1,849,335                          | -  | -  | 1,146,296                            | 3,000,818         | 2,905,922         |                              |
| Improvements and infrastructure                 | 12,345,469                         | 16,448,049                         | 62,397   | 1,696,962                                      | 260,181                              | 30,813,058        | 494,443           |                              |
| Machinery and equipment                         | 752,073                            | 360,658                            | 159,513  | 32,949   | 57,743                               | 1,362,936         | 2,034,663         |                              |
| Total noncurrent assets                         | 20,777,991                         | 24,832,211                         | 428,420  | 3,965,671                                      | 4,961,025                            | 54,965,318        | 5,498,879         |                              |
| <b>Total assets</b>                             | <b>29,228,178</b>                  | <b>37,276,650</b>                  | <b>3,768,741</b>                               | <b>5,059,063</b>                               | <b>5,918,413</b>                     | <b>81,251,045</b> | <b>13,558,745</b> |                              |

The accompanying notes are an integral part of this statement.

City of Oak Harbor  
Statement of Net Position  
Proprietary Funds  
December 31, 2014  
(Continued)

|                                     | Business-Type Activities           |                                    |  |  |                                      |                      |                      | Internal<br>Service<br>Funds |
|-------------------------------------|------------------------------------|------------------------------------|--|--|--------------------------------------|----------------------|----------------------|------------------------------|
|                                     | Water and<br>Water<br>Reserve Fund | Sewer and<br>Sewer<br>Reserve Fund | Solid Waste and<br>Solid Waste<br>Reserve Fund | Storm Drain and<br>Storm Drain<br>Reserve Fund | Marina and<br>Marina<br>Reserve Fund | Total                |                      |                              |
| <b>Liabilities</b>                  |                                    |                                    |  |  |                                      |                      |                      |                              |
| Current liabilities:                |                                    |                                    |  |  |                                      |                      |                      |                              |
| Accounts payable                    | 173,173                            | 61,227                             | 108,354  | 24,957   | 31,181                               | 398,892              | 32,330               |                              |
| Deposits                            | 2,813                              | 2,478                              | 4,700  | -  | 90,654                               | 100,645              | -                    |                              |
| Retainage                           | 195,827                            | -                                  | -  | 31,783   | -                                    | 227,610              | -                    |                              |
| Interest payable                    | 1,483                              | 24,116                             | -  | 994  | 6,784                                | 33,377               | -                    |                              |
| Compensated absences                | 4,626                              | 2,199                              | 6,734  | 7,822  | 1,211                                | 22,592               | 21,957               |                              |
| Due to other governments            | 51,344                             | -                                  | -  | 48,228   | -                                    | 99,572               | -                    |                              |
| Bonds payable, net                  | -                                  | 140,000                            | -  | -  | 105,000                              | 245,000              | -                    |                              |
| <b>Total current liabilities</b>    | <b>429,266</b>                     | <b>230,020</b>                     | <b>119,788</b>                                 | <b>113,784</b>                                 | <b>234,830</b>                       | <b>1,127,688</b>     | <b>54,287</b>        |                              |
| Noncurrent liabilities:             |                                    |                                    |  |  |                                      |                      |                      |                              |
| Compensated absences                | 39,093                             | 21,035                             | 58,981   | 62,745   | 12,922                               | 194,776              | 179,986              |                              |
| Due to other governments            | 541,806                            | -                                  | -  | 771,649  | -                                    | 1,313,455            | -                    |                              |
| Bonds payable, net                  | -                                  | 1,530,000                          | -  | -  | 2,028,824                            | 3,558,824            | -                    |                              |
| <b>Total noncurrent liabilities</b> | <b>580,899</b>                     | <b>1,551,035</b>                   | <b>58,981</b>                                  | <b>834,394</b>                                 | <b>2,041,746</b>                     | <b>5,067,055</b>     | <b>179,986</b>       |                              |
| <b>Total liabilities</b>            | <b>1,010,165</b>                   | <b>1,781,055</b>                   | <b>178,769</b>                                 | <b>948,178</b>                                 | <b>2,276,576</b>                     | <b>6,194,743</b>     | <b>234,273</b>       |                              |
| <b>Net Position</b>                 |                                    |                                    |  |  |                                      |                      |                      |                              |
| Net investment in capital assets    | 20,100,263                         | 22,948,288                         | 423,720  | 3,145,794                                      | 2,505,817                            | 49,123,882           | 5,498,879            |                              |
| Restricted for:                     |                                    |                                    |  |  |                                      |                      |                      |                              |
| Capital projects                    | 81,928                             | -                                  | -  | -  | -                                    | 81,928               | -                    |                              |
| Debt service                        | -                                  | 213,123                            | -  | -  | 257,000                              | 470,123              | -                    |                              |
| Unrestricted                        | 8,035,822                          | 12,334,184                         | 3,166,252                                      | 965,091  | 879,020                              | 25,380,369           | 7,825,593            |                              |
| <b>Total net position</b>           | <b>\$ 28,218,013</b>               | <b>\$ 35,495,595</b>               | <b>\$ 3,589,972</b>                            | <b>\$ 4,110,885</b>                            | <b>\$ 3,641,837</b>                  | <b>\$ 75,056,302</b> | <b>\$ 13,324,472</b> |                              |

Amounts reported for business-type activities in the statement of net positions are different because:  
Adjustments to reflect consolidation of internal service fund activities related to enterprise funds.  
net positions of business type activities

13,324,472  
\$ 88,380,774

The accompanying notes are an integral part of this statement.

City of Oak Harbor  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2014**

|  | Business-Type Activities     |                              |                          |                          |                                |                     | Total         | Internal Service Funds |
|--|------------------------------|------------------------------|--------------------------|--------------------------|--------------------------------|---------------------|---------------|------------------------|
|  | Water and Water Reserve Fund | Sewer and Sewer Reserve Fund | Solid Waste Reserve Fund | Storm Drain Reserve Fund | Marina and Marina Reserve Fund | Marina Reserve Fund |               |                        |
| <b>Operating Revenues</b>                            |                              |                              |                          |                          |                                |                     |               |                        |
| Charges for services                                 | \$ 5,478,275                 | \$ 5,358,193                 | \$ 3,369,108             | \$ 1,805,730             | \$ 1,336,121                   | \$ 17,347,427       | \$ 2,605,139  |                        |
| System development revenue                           | 200,265                      | 124,135                      | -                        | -                        | -                              | 324,400             | -             |                        |
| Other operating revenues                             | 2,828                        | 291                          | -                        | 1,911                    | -                              | 5,030               | 1,699,682     |                        |
| Total operating revenues                             | 5,681,368                    | 5,482,619                    | 3,369,108                | 1,807,641                | 1,336,121                      | 17,676,857          | 4,304,821     |                        |
| <b>Operating Expenses</b>                            |                              |                              |                          |                          |                                |                     |               |                        |
| Cost of sales and service                            | 2,281,580                    | 759,839                      | 677,785                  | 397,811                  | 741,240                        | 4,858,255           | 2,127,082     |                        |
| Contractual services                                 | 94,780                       | 153,264                      | 13,718                   | 103,055                  | 27,045                         | 391,862             | 271,905       |                        |
| Utilities  | 18,664                       | 213,362                      | 1,094,330                | -                        | 80,792                         | 1,407,148           | 62,909        |                        |
| Taxes  | 602,231                      | 459,741                      | 367,247                  | 127,134                  | 9,535                          | 1,565,888           | 4,957         |                        |
| Repairs and maintenance                              | 81,245                       | 132,403                      | 356,200                  | 64,322                   | 26,185                         | 660,355             | 237,945       |                        |
| Other operating expenses                             | 699,975                      | 1,490,982                    | 589,726                  | 585,959                  | 124,330                        | 3,490,972           | 625,736       |                        |
| Insurance claims and expenses                        | 24,894                       | 41,659                       | 24,553                   | 9,758                    | 15,067                         | 115,931             | 25,966        |                        |
| Depreciation   | 692,197                      | 958,866                      | 69,785                   | 155,535                  | 194,900                        | 2,071,283           | 547,019       |                        |
| Total operating expenses                             | 4,495,566                    | 4,210,116                    | 3,193,344                | 1,443,574                | 1,219,094                      | 14,561,694          | 3,903,519     |                        |
| Operating income (loss)                              | 1,185,802                    | 1,272,503                    | 175,764                  | 364,067                  | 117,027                        | 3,115,163           | 401,302       |                        |
| <b>Nonoperating Revenues (Expenses)</b>              |                              |                              |                          |                          |                                |                     |               |                        |
| Interest revenue                                     | 25,210                       | 43,961                       | 14,076                   | 3,498                    | 3,590                          | 90,335              | 7,025         |                        |
| External subsidies                                   | -                            | 9,457                        | -                        | 29,273                   | 16,014                         | 54,744              | -             |                        |
| Other nonoperating revenues                          | 79,557                       | 125,513                      | 2,585                    | 71,614                   | 63,207                         | 342,476             | 14,071        |                        |
| Gain (loss) on sale of fixed assets                  | -                            | -                            | -                        | -                        | -                              | -                   | (3,695)       |                        |
| Interest expense                                     | (3,094)                      | (75,723)                     | -                        | (994)                    | (83,299)                       | (163,110)           | -             |                        |
| Total nonoperating revenues (expenses)               | 101,673                      | 103,208                      | 16,661                   | 103,391                  | (488)                          | 324,445             | 17,401        |                        |
| Net income (loss) before contributions and transfers | 1,287,475                    | 1,375,711                    | 192,425                  | 467,458                  | 116,539                        | 3,439,608           | 418,703       |                        |
| Transfers in   | -                            | -                            | -                        | -                        | -                              | -                   | 2,598         |                        |
| Change in net position                               | 1,287,475                    | 1,375,711                    | 192,425                  | 467,458                  | 116,539                        | 3,439,608           | 421,301       |                        |
| Net position - beginning                             | 26,930,538                   | 34,119,884                   | 3,397,547                | 3,643,427                | 3,525,298                      | 71,616,694          | 12,903,171    |                        |
| Net position - ending                                | \$ 28,218,013                | \$ 35,495,595                | \$ 3,589,972             | \$ 4,110,885             | \$ 3,641,837                   | \$ 75,056,302       | \$ 13,324,472 |                        |

Amounts reported for business-type activities in the statement of activities are different because:  
Change in net position \$ 3,439,608  
Adjustments to reflect consolidation of internal service fund activities related to enterprise funds. 421,301  
Change in net position of business-type activities \$ 3,860,909

The accompanying notes are an integral part of this statement.

City of Oak Harbor  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

|  | Business-Type Activities     |                              |  |  |                                |               |             | Internal Service Funds |
|--|------------------------------|------------------------------|--|--|--------------------------------|---------------|-------------|------------------------|
|  | Water and Water Reserve Fund | Sewer and Sewer Reserve Fund | Solid Waste and Solid Waste Reserve Fund | Storm Drain and Storm Drain Reserve Fund | Marina and Marina Reserve Fund | Total         |             |                        |
| <b>Cash Flows From Operating Activities</b>                          |                              |                              |  |  |                                |               |             |                        |
| Receipts from customers and users                                    | \$ 5,706,521                 | \$ 5,444,993                 | \$ 3,276,928                             | \$ 1,690,360                             | \$ 1,364,564                   | \$ 17,483,366 | \$ -        |                        |
| Receipts from interfund services provided                            | 1,241                        | -                            | 203                                      | 14,842                                   | -                              | 16,286        | 4,304,821   |                        |
| Payments to suppliers  | (3,122,597)                  | (1,340,676)                  | (1,784,343)                              | (385,540)                                | (695,770)                      | (7,328,926)   | (1,637,374) |                        |
| Payments to employees  | (299,877)                    | (480,590)                    | (403,781)                                | (248,667)                                | (240,231)                      | (1,673,146)   | (1,049,421) |                        |
| Payments for interfund services used                                 | (730,199)                    | (1,508,448)                  | (935,541)                                | (603,886)                                | (105,033)                      | (3,883,107)   | (720,092)   |                        |
| Net cash provided by operating activities                            | 1,555,089                    | 2,115,279                    | 153,466                                  | 467,109                                  | 323,530                        | 4,614,473     | 897,934     |                        |
| <b>Cash Flows From Noncapital Financing Activities</b>               |                              |                              |  |  |                                |               |             |                        |
| Transfers from other funds   | -                            | -                            | -  | -  | -                              | -             | 2,598       |                        |
| Receipts from miscellaneous revenues                                 | 79,557                       | 134,970                      | 2,585                                    | 100,887                                  | 79,221                         | 397,220       | 14,071      |                        |
| Net cash provided (used) by noncapital financing activities          | 79,557                       | 134,970                      | 2,585                                    | 100,887                                  | 79,221                         | 397,220       | 16,669      |                        |
| <b>Cash Flows From Capital and Related Financing Activities</b>      |                              |                              |  |  |                                |               |             |                        |
| Proceeds from capital debt   | -                            | -                            | -  | 819,877                                  | -                              | 819,877       | -           |                        |
| Principal paid on capital debt                                       | (51,345)                     | (135,000)                    | -  | -  | (99,479)                       | (285,824)     | -           |                        |
| Interest paid on capital debt  | (3,222)                      | (77,410)                     | -  | -  | (83,424)                       | (164,056)     | -           |                        |
| Purchases of capital assets  | (1,137,558)                  | (3,757,435)                  | (28,588)                                 | (1,213,155)                              | -                              | (6,136,736)   | (1,146,703) |                        |
| Proceeds from sales of capital assets                                | -                            | -                            | -  | -  | -                              | -             | (3,695)     |                        |
| Net cash provided (used) by capital and related financing activities | (1,192,125)                  | (3,969,845)                  | (28,588)                                 | (393,278)                                | (182,903)                      | (5,766,739)   | (1,150,398) |                        |

The accompanying notes are an integral part of this statement.

City of Oak Harbor  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014  
(Continued)

|   | Business-Type Activities     |                    |                          |                          |                                |                     | Total        | Internal Service Funds |
|---|------------------------------|--------------------|--------------------------|--------------------------|--------------------------------|---------------------|--------------|------------------------|
|   | Water and Sewer Reserve Fund | Sewer Reserve Fund | Solid Waste Reserve Fund | Storm Drain Reserve Fund | Marina and Marina Reserve Fund | Marina Reserve Fund |              |                        |
| <b>Cash Flows From Investing Activities</b>   |                              |                    |                          |                          |                                |                     |              |                        |
| Proceeds from sale and maturity of investments  | 1,428,619                    | 2,155,026          | 353,176                  | 149,165                  | 210,601                        | 4,296,587           | 1,434,025    |                        |
| Purchase of investments   | (1,456,996)                  | (1,071,130)        | (347,871)                | (213,346)                | (287,883)                      | (3,377,226)         | (1,132,110)  |                        |
| Interest and dividends received   | 25,210                       | 43,961             | 14,076                   | 3,498                    | 3,590                          | 90,335              | 7,025        |                        |
| Net cash provided (used) by investing activities  | (3,167)                      | 1,127,857          | 19,381                   | (60,683)                 | (73,692)                       | 1,009,696           | 308,940      |                        |
| Net increase (decrease) in cash and cash equivalents  | 439,354                      | (591,739)          | 146,844                  | 114,035                  | 146,156                        | 254,650             | 73,145       |                        |
| Cash and cash equivalents - beginning of year   | 3,969,010                    | 7,241,614          | 1,504,576                | 346,250                  | 503,706                        | 13,565,156          | 4,351,900    |                        |
| Cash and cash equivalents - end of year   | \$ 4,408,364                 | \$ 6,649,875       | \$ 1,651,420             | \$ 460,285               | \$ 649,862                     | \$ 13,819,806       | \$ 4,425,045 |                        |
| <b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>                  |                              |                    |                          |                          |                                |                     |              |                        |
| Operating income (loss)   | \$ 1,185,802                 | \$ 1,272,503       | \$ 175,764               | \$ 364,067               | \$ 117,027                     | \$ 3,115,163        | \$ 401,302   |                        |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities:                  |                              |                    |                          |                          |                                |                     |              |                        |
| Depreciation expense  | 692,197                      | 958,866            | 69,785                   | 155,535                  | 194,900                        | 2,071,283           | 547,019      |                        |
| (Increase) decrease in accounts receivable  | 26,226                       | (43,584)           | (93,977)                 | (25,146)                 | (1,498)                        | (137,979)           | -            |                        |
| (Increase) decrease in due from other governments   | -                            | 3,480              | -                        | (29,273)                 | (901)                          | (26,694)            | -            |                        |
| (Increase) decrease in inventories  | -                            | -                  | -                        | -                        | 12,545                         | 12,545              | 8,286        |                        |
| Increase (decrease) in accounts payable   | (387,280)                    | (82,701)           | 3,096                    | 10,617                   | (23,844)                       | (480,112)           | (75,887)     |                        |
| Increase (decrease) in deposits   | 168                          | 2,478              | 2,000                    | (48,020)                 | 30,842                         | (12,532)            | -            |                        |
| Increase (decrease) in retainage  | 35,436                       | -                  | -                        | 31,783                   | -                              | 67,219              | -            |                        |
| Increase (decrease) in compensated absences payable   | 2,540                        | 4,237              | (3,202)                  | 7,546                    | (5,541)                        | 5,580               | 17,214       |                        |
| Net cash provided (used) by operating activities  | \$ 1,555,089                 | \$ 2,115,279       | \$ 153,466               | \$ 467,109               | \$ 323,530                     | \$ 4,614,473        | \$ 897,934   |                        |
| <b>Noncash Activities:</b>  |                              |                    |                          |                          |                                |                     |              |                        |
| Contributions of capital assets from developer construction   | \$ -                         | \$ -               | \$ -                     | \$ -                     | \$ -                           | \$ -                | \$ -         |                        |
| The accompanying notes are an integral part of this statement.  |                              |                    |                          |                          |                                |                     |              |                        |
| Cash and cash equivalents - beginning of year has been adjusted to reflect the reclassification of investments. |                              |                    |                          |                          |                                |                     |              |                        |

## 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 Statement 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**

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 requirement 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 fund:

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 City reports the following major proprietary funds:

The *Water and Water Reserve 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. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *Sewer and Sewer Reserve 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.

This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

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

The *Marina and Marina Reserve 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 such as dredging and dock replacement. This fund also reflects the operation of general obligation bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

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.

*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, operation, and depreciation costs are charged to each user department on a monthly basis.

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

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**

### ***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.

### ***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.

### ***Budgetary Compliance***

In 2014, there were no City funds that reported actual expenditures above budgeted appropriations.

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 no City fund has exceeded its legally established appropriation.

### ***Deficit Fund Equity***

The City had no funds with deficit fund equity.

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

### ***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, 2014, the Finance Director was holding \$25,449,191 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 daily 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.

### ***Investments***

In accordance with GASB 31, investments are stated at fair value (see Note 3 - Deposits and Investments). The City uses quoted market prices at December 31, 2014 to establish the fair market value of investments and adjusts the carrying value accordingly. Investments are allocated to individual funds based on the fund's prorated percentage of cash balance at year end. As of December 31, 2014, the City had \$22,006,899 in investments.

### ***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.

### ***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.

***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).

***Restricted Assets and Liabilities***

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable, if any, in enterprise funds. These accounts contain resources for a 24” waterline reserve, certain customer deposits, debt service, and impact fees. Specific debt service reserve requirements are described in Note 9 - Long-term Debt.

The restricted cash of the City is composed of the following:

|                              | <b>Governmental</b> | <b>Business-type</b> |
|------------------------------|---------------------|----------------------|
| Capital projects             | \$0                 | \$81,928             |
| Customer deposits            | 7,150               | 72,534               |
| Debt service                 | -                   | 470,123              |
| Impact fees                  | 919,404             | -                    |
| <b>Total restricted cash</b> | <b>\$926,554</b>    | <b>\$624,585</b>     |

***Capital Assets (See Note - 5 Capital Assets and Depreciation)***

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.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

| Asset                             | Years |
|-----------------------------------|-------|
| Buildings and improvements        | 5-50  |
| Improvements other than buildings | 10-20 |
| Machinery and equipment           | 5-20  |
| Art                               | 25    |
| Vehicles                          | 4-15  |
| Utility systems                   | 20-40 |
| Infrastructure                    | 20-40 |

### 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.

### 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.

### 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.9 - 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.

### 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 for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred.

## **Custodial Accounts**

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

## **Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Also, all payables, accrued liabilities and long-term obligations payable 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. When due, bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements.

## **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.

## **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 Statement No. 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.”

### **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

### **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 Governmental Accounting Standards Board (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.

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.

Should funds be spent from the General Fund Stabilization Fund, City Council shall immediately establish a plan outlining the methodology and timeline necessary to replace the funds to their required level.

Conditions under which funds may be spent - The resources in the General Fund Revenue Stabilization Fund shall accumulate from year to year until such time as:

- (a) Available reserves in the General Fund Revenue Stabilization Fund exceed twenty five percent (25%) of prior year revenues to the General Fund or \$3,000,000, whichever is greater, and the Council by majority vote appropriates all or part of the excess available reserves; or
- (b) The council makes a written finding that a non-routine emergency or other non-routine exigent circumstances exist that require use of city General Fund reserves and by a minimum of four affirmative votes appropriates all or part of the available reserves in the General Fund Revenue Stabilization Fund.

As of December 31, 2014, the cash balance in the General Fund Revenue Stabilization Fund is \$3,142,978.

**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<br>Fund    | Other<br>Governmental<br>Funds | Total               |
|--|--------------------|--------------------------------|---------------------|
| <b>Fund Balances:</b>                  |                    |                                |                     |
| <b>Restricted for:</b>                 |                    |                                |                     |
| Drug Seizure Program                   | \$ 8,773           | \$ -                           | \$ 8,773            |
| Public Safety                          | 421                | -                              | 421                 |
| Street Surface Improvements            | -                  | 1,504,314                      | 1,504,314           |
| Arterial Traffic Improvements          | -                  | 1,277,518                      | 1,277,518           |
| Transportation Capital Improvements    | -                  | 803,801                        | 803,801             |
| Paths And Trails Improvements          | -                  | 26,899                         | 26,899              |
| Tourism Promotion                      | -                  | 717,056                        | 717,056             |
| Park Improvement Programs              | -                  | 115,603                        | 115,603             |
| Capital Facilities Plan                | -                  | 1,480,874                      | 1,480,874           |
| <b>Committed to:</b>                   |                    |                                |                     |
| Street Surface Improvements            | -                  | 180,000                        | 180,000             |
| Transportation Capital Improvements    | -                  | 342,087                        | 342,087             |
| Community Art Acquisition and Maintena | -                  | 64,825                         | 64,825              |
| Park Improvement Programs              | -                  | 260,816                        | 260,816             |
| Senior Services Program                | -                  | 95,212                         | 95,212              |
| Municipal Pier Capital Project         | -                  | 168,338                        | 168,338             |
| Waterfront Redevelopment Fund          | -                  | 378,289                        | 378,289             |
| <b>Assigned to:</b>                    |                    |                                |                     |
| Stabilization Arrangement              | 3,066,778          | -                              | 3,066,778           |
| Municipal Court                        | 150,948            | -                              | 150,948             |
| Whidbey Marathon Operating Funds       | 13,202             | -                              | 13,202              |
| Office Operations                      | 8,400              | -                              | 8,400               |
| <b>Unassigned:</b>                     | <b>5,048,220</b>   | <b>-</b>                       | <b>5,048,220</b>    |
| <b>Total Fund Balances</b>             | <b>\$8,296,742</b> | <b>\$ 7,415,632</b>            | <b>\$15,712,374</b> |

**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 State Public Deposit Protection Commission (WPDPC). The FDIC insures the first \$250,000 of the City’s deposits. The deposit balances over \$250,000 are collateralized by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool’s collateral should be insufficient to cover a loss.

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.

A reconciliation of cash and cash equivalents (including pooled investments) and investments as shown in the government-wide and fund financial statements is as follows:

| Type   | Fair Value          | Investment Maturities (In Months) |                    |                    |                    |                    | % of Portfolio |
|--|---------------------|-----------------------------------|--------------------|--------------------|--------------------|--------------------|----------------|
|  |                     | 0 to 6                            | 7 to 12            | 13 to 18           | 19 to 24           | Over 24            |                |
| <b>Cash &amp; cash equivalents</b>                       |                     |                                   |                    |                    |                    |                    |                |
| FDIC or PDPC insured bank deposits                       | \$8,818,306         | \$8,818,306                       | \$ -               | \$ -               | \$ -               | \$ -               | 17.99%         |
| Petty Cash on hand                                       | 7,359               | 7,359                             | -                  | -                  | -                  | -                  | 0.02%          |
| Washington State Local Government Inv. Pool              | 18,174,665          | 18,174,665                        | -                  | -                  | -                  | -                  | 37.09%         |
| <b>Total cash &amp; cash equivalents</b>                 | <b>\$27,000,330</b> | <b>\$27,000,330</b>               | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>55.09%</b>  |
| <b>Investments</b>                                       |                     |                                   |                    |                    |                    |                    |                |
| Federal Farm Credit Bank                                 | 985,769             | -                                 | -                  | -                  | -                  | 985,769            | 2.01%          |
| Federal Home Loan Bank                                   | 6,077,154           | 2,002,688                         | -                  | 3,076,977          | 997,489            | -                  | 12.40%         |
| Federal Home Loan Mortgage Corporation                   | 4,005,614           | -                                 | -                  | -                  | -                  | 4,005,614          | 8.17%          |
| FICO Strips  | 1,893,760           | -                                 | 877,762            | -                  | 1,015,998          | -                  | 3.86%          |
| Federal National Mortgage                                | 9,044,602           | 2,016,438                         | 1,001,673          | -                  | 3,026,812          | 2,999,679          | 18.46%         |
| <b>Total investments</b>                                 | <b>22,006,899</b>   | <b>4,019,126</b>                  | <b>1,879,435</b>   | <b>3,076,977</b>   | <b>5,040,299</b>   | <b>7,991,062</b>   | <b>44.91%</b>  |
| <b>Total cash &amp; cash equivalents and investments</b> | <b>\$49,007,229</b> | <b>\$31,019,456</b>               | <b>\$1,879,435</b> | <b>\$3,076,977</b> | <b>\$5,040,299</b> | <b>\$7,991,062</b> | <b>100.00%</b> |

The Washington State Local Government Investment Pool (LGIP) which is managed by the Washington State Treasurer's Office. 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 fair value of the City's pool investments is determined by the pool's share price. 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 City includes the LGIP as an investment in the above table, but it is disclosed on the financial statements as a cash equivalent.

*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 90 days.

*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, 2014 were AA+ by Standard and Poor.

*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.

*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.

*Exposure to Foreign Currency Risk.* The City does not invest in any form of foreign currency denomination. While the City does have customers who pay invoices to the city in foreign funds, these transactions are translated and converted into U.S dollars in an amount equal to the original invoice price prior to being received by the City. Accordingly, the City has no exposure to foreign currency risk.

**Note 4 – Property Taxes**

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

| <b>Property Tax Calendar</b> |   |
|------------------------------|---|
| 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 2014 was \$2.4929 per \$1,000 on an assessed valuation of \$1,590,666,301 for a regular levy of \$3,965,375.

**Note 5 – Capital Assets and Depreciation**

Governmental-type capital assets activity for the year ended December 31, 2014 was as follows:

| Governmental Activities:                                   | Beginning Balance      |                       |             | Ending Balance         |
|--|------------------------|-----------------------|-------------|------------------------|
|  | 1/1/2014               | Increases             | Decreases   |                        |
| <b>Capital assets not being depreciated:</b>               |                        |                       |             |                        |
| Land   | \$ 9,518,609           | \$ 9,948              | \$ -        | \$ 9,528,557           |
| Construction in progress                                   | 38,914                 | 27,394                | -           | 66,308                 |
| Intangible assets  | 50,000                 | -                     | -           | 50,000                 |
| <b>Total capital assets not depreciated:</b>               | <b>\$ 9,607,523</b>    | <b>\$ 37,342</b>      | <b>\$ -</b> | <b>\$ 9,644,865</b>    |
| <b>Assets depreciated:</b>                                 |                        |                       |             |                        |
| Buildings  | \$ 8,368,245           | \$ -                  | \$ -        | \$ 8,368,245           |
| Capital lease  | 138,572                | -                     | -           | 138,572                |
| Improvements & infrastructure                              | 34,144,458             | -                     | -           | 34,144,458             |
| Machinery & equipment                                      | 2,158,104              | 10,549                | -           | 2,168,653              |
| <b>Total capital assets depreciated:</b>                   | <b>\$ 44,809,379</b>   | <b>\$ 10,549</b>      | <b>\$ -</b> | <b>\$ 44,819,928</b>   |
| <b>Less accumulated depreciation:</b>                      |                        |                       |             |                        |
| Buildings  | \$ (4,523,923)         | \$ (171,247)          | \$ -        | \$ (4,695,170)         |
| Capital lease  | (138,572)              | -                     | -           | (138,572)              |
| Improvements & infrastructure                              | (21,727,298)           | (1,037,362)           | -           | (22,764,660)           |
| Machinery & equipment                                      | (1,399,958)            | (125,738)             | -           | (1,525,696)            |
| <b>Total accumulated depreciation:</b>                     | <b>\$ (27,789,751)</b> | <b>\$ (1,334,347)</b> | <b>\$ -</b> | <b>\$ (29,124,098)</b> |
| <b>Total capital assets depreciated (net):</b>             | <b>\$ 17,019,628</b>   | <b>\$ (1,323,798)</b> | <b>\$ -</b> | <b>\$ 15,695,830</b>   |
| <b>Governmental activities total capital assets (net):</b> | <b>\$ 26,627,151</b>   | <b>\$ (1,286,456)</b> | <b>\$ -</b> | <b>\$ 25,340,695</b>   |

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

| <b>Governmental Activities:</b>                             |                     |
|---|---------------------|
| General governmental  | \$ 52,370           |
| Public safety   | 81,310              |
| Natural & economic environment                              | 20,976              |
| Transportation  | 1,041,128           |
| Social Services   | 19,179              |
| Cultural and recreational                                   | 119,384             |
| <b>Total depreciation expense - governmental activities</b> | <b>\$ 1,334,347</b> |

Business-type capital assets activity for the year ended December 31, 2014 was as follows:

| Business-type Activities:                                   | Beginning Balance      |                       |                       | Ending Balance         |
|---|------------------------|-----------------------|-----------------------|------------------------|
|   | 1/1/2014               | Increases             | Decreases             |                        |
| <b>Capital assets not being depreciated:</b>                |                        |                       |                       |                        |
| Land  | \$ 6,458,748           | \$ 1,390,656          | \$ -                  | \$ 7,849,404           |
| Construction in progress                                    | \$ 8,058,420           | 4,291,772             | (971,824)             | \$ 11,378,368          |
| <b>Total capital assets not depreciated:</b>                | <b>\$ 14,517,168</b>   | <b>\$ 5,682,428</b>   | <b>\$ (971,824)</b>   | <b>\$ 19,227,772</b>   |
| <b>Capital assets being depreciated:</b>                    |                        |                       |                       |                        |
| Buildings   | \$ 9,989,000           | \$ 1,311,773          | \$ -                  | \$ 11,300,773          |
| Improvements  | \$ 59,628,717          | -                     | -                     | \$ 59,628,717          |
| Machinery & equipment                                       | \$ 14,042,243          | 1,264,756             | (1,003,991)           | \$ 14,303,008          |
| <b>Total capital assets depreciated:</b>                    | <b>\$ 83,659,960</b>   | <b>\$ 2,576,529</b>   | <b>\$ (1,003,991)</b> | <b>\$ 85,232,498</b>   |
| <b>Less accumulated depreciation:</b>                       |                        |                       |                       |                        |
| Buildings   | \$ (5,162,382)         | \$ (231,651)          | \$ -                  | \$ (5,394,033)         |
| Improvements  | \$ (26,734,389)        | (1,586,827)           | -                     | \$ (28,321,216)        |
| Machinery & equipment                                       | \$ (11,105,882)        | (799,824)             | 1,000,297             | \$ (10,905,409)        |
| <b>Total accumulated depreciation:</b>                      | <b>\$ (43,002,653)</b> | <b>\$ (2,618,302)</b> | <b>\$ 1,000,297</b>   | <b>\$ (44,620,658)</b> |
| <b>Total capital assets depreciated (net):</b>              | <b>\$ 40,657,307</b>   | <b>\$ (41,773)</b>    | <b>\$ (3,694)</b>     | <b>\$ 40,611,840</b>   |
| <b>Business-type activities total capital assets (net):</b> | <b>\$ 55,174,475</b>   | <b>\$ 5,640,655</b>   | <b>\$ (975,518)</b>   | <b>\$ 59,839,612</b>   |

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

| <b>Business-type Activities:</b>                             |                     |
|--|---------------------|
| Water  | \$ 692,197          |
| Sewer  | 958,866             |
| Solid waste  | 69,785              |
| Storm drain  | 155,535             |
| Marina   | 194,900             |
| Internal service   | 547,019             |
| <b>Total depreciation expense - business-type activities</b> | <b>\$ 2,618,302</b> |

The City has active construction projects as of December 31, 2014. The projects include construction of a new water reservoir and booster station and design of a wastewater treatment plant.

| Project                       | Spent to Date       | Remaining Commitment |
|-------------------------------|---------------------|----------------------|
| Wastewater treatment plant    | \$ 2,758,376        | \$ 8,492,379         |
| Gun Club Road water reservoir | \$ 173,049          | \$ 149,074           |
| North booster station         | 584,986             | 443,914              |
| Scenic Heights outfall        | 19,353              | 12,947               |
| <b>Total</b>                  | <b>\$ 3,535,764</b> | <b>\$ 9,098,314</b>  |

## **Note 6 – Pension Plans**

Substantially all City of Oak Harbor 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and 27*.

### **Public Employees' Retirement System (PERS) Plans 1, 2 and 3**

#### ***Plan Description***

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

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to

a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

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

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

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

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

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

PERS Plan 3 benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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

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

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

| Type of Members  | Number of Participants |
|--|------------------------|
| Retirees and Beneficiaries Receiving Benefits                      | 85,328                 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 31,047                 |
| Active Plan Members Vested   | 150,706                |
| Active Plan Members Nonvested                                      | 101,191                |
| <b>Total</b>   | <b>368,272</b>         |

### **Funding Policy**

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

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

| Contributer | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|-------------|-------------|-------------|-------------|
| Employer*   | 9.21%       | 9.21%       | 9.21%**     |
| Employee    | 6.00%       | 4.92%       | ***         |

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

\*\*Plan 3 defined benefit portion only.

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

Both the City of Oak Harbor and the employees made the required contributions. The overall required contributions for the years ended December 31 were as follows:

| Year | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|------|-------------|-------------|-------------|
| 2014 | \$46,572    | \$469,652   | \$324,339   |
| 2013 | 51,785      | 412,694     | 306,422     |
| 2012 | 37,587      | 400,767     | 291,291     |

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

### Plan Description

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

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

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

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

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

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

| Term of Service           | Percent of Final Average Salary |
|---------------------------|---------------------------------|
| 20 or more years          | 2.00%                           |
| 10 but less than 20 years | 1.50%                           |
| 5 but less than 10 years  | 1.00%                           |

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the

FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

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

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

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

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

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

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

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

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

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

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

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

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

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

| Type of Members  | Number of Participants |
|--|------------------------|
| Retirees and Beneficiaries Receiving Benefits                      | 10,511                 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 699                    |
| Active Plan Members Vested   | 16,830                 |
| Active Plan Members Nonvested                                      | 1,600                  |
| <b>Total</b>   | <b>29,640</b>          |

### **Funding Policy**

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and this could be changed by statute. For DRS' fiscal year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

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

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

| Contributer | LEOFF Plan 1 | LEOFF Plan 2 |
|-------------|--------------|--------------|
| Employer*   | 0.18%        | 5.23%**      |
| Employee    | 0.00%        | 8.41%        |
| State       | N/A          | 3.36%        |

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

\*\*The employer rate for ports and universities is 8.59%.

Both the City of Oak Harbor and the employees made the required contributions. The overall required contributions for the years ended December 31 were as follows:

| Year | LEOFF Plan 1 | LEOFF Plan 2 |
|------|--------------|--------------|
| 2014 | \$59         | \$385,695    |
| 2013 | 161          | 394,397      |
| 2012 | 226          | 367,195      |

## **Public Safety Employees' Retirement System (PSERS) Plan 2**

### ***Plan Description***

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established in chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

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.

Covered employers include:

- 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; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, 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 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the 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, and a cost-of-living allowance is granted (based on Consumer Price Index), capped at 3 percent annually.

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

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

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

| Type of Members  | Number of Participants |
|--|------------------------|
| Retirees and Beneficiaries Receiving Benefits                      | 43                     |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 119                    |
| Active Plan Members Vested   | 4,513                  |
| Active Plan Members Nonvested                                      | 1,383                  |
| <b>Total</b>   | <b>6,058</b>           |

**Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

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

| Contributer | PSERS Plan 2 |
|-------------|--------------|
| Employer*   | 10.54%       |
| Employee    | 6.36%        |

\*The employer rate includes an employer administrative expense fee of 0.18%.

Both the City of Oak Harbor and the employees made the required contributions. The overall required contributions for the years ended December 31 were as follows:

| Year | PSERS<br>Plan 2 |
|------|-----------------|
| 2014 | \$50,996        |
| 2013 | 35,628          |
| 2012 | 22,897          |

### **Other Retirement Systems - Volunteer Fire Fighters' Relief and Pension Fund**

The Washington State Board for Volunteer Firefighters and Reserve Officers administers the Volunteer Firefighters' and Reserve Officers' Relief and Pension Act; a cost-sharing multiple-employer retirement system created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through municipal or member pension contributions of \$60 per year; employer disability fee of \$30 per year; 40 percent of the Fire Insurance Premium Tax, if applicable; and earnings from the investment of money by the Washington State Investment Board. However, members may elect to withdraw their contributions upon termination. Currently, the City of Oak Harbor pays the premiums for participating members.

### **Note 7 – 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 153 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, 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, and 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 2014.

**Note 8 – 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 2014 nor were any issued during the year.

**Note 9 – 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.

**General Obligation Bonds**

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 and Marina Reserve Funds. 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:

| Purpose                    | Maturity Range | Interest Rate | Original Amount | Amount of Installments |
|----------------------------|----------------|---------------|-----------------|------------------------|
| 2011 OAKLTGO11 Marina Bond | 2030           | 2.25% - 4.40% | \$2,570,000     | \$2,145,000            |

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

| Year Ending December 31, | Governmental Activities |             | Business-type Activities |                   |
|--------------------------|-------------------------|-------------|--------------------------|-------------------|
|                          | Principal               | Interest    | Principal                | Interest          |
| 2015                     | \$ -                    | \$ -        | 105,000                  | 81,403            |
| 2016                     | -                       | -           | 105,000                  | 79,040            |
| 2017                     | -                       | -           | 110,000                  | 76,678            |
| 2018                     | -                       | -           | 110,000                  | 73,378            |
| 2019                     | -                       | -           | 115,000                  | 70,078            |
| 2020-2024                | -                       | -           | 645,000                  | 285,700           |
| 2025-2029                | -                       | -           | 780,000                  | 143,520           |
| 2030                     | -                       | -           | 175,000                  | 7,700             |
| <b>Total</b>             | <b>\$ -</b>             | <b>\$ -</b> | <b>\$ 2,145,000</b>      | <b>\$ 817,497</b> |

**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:

| Purpose                          | Maturity Range | Interest Rate | Original Amount | Amount of Installments |
|----------------------------------|----------------|---------------|-----------------|------------------------|
| 2004 Water & Sewer Revenue Bonds | 2024           | 3.90% - 4.55% | \$2,865,000     | \$1,670,000            |

Revenue bond debt service requirements to maturity are as follows:

| Year Ending December 31, | Principal          | Interest         |
|--------------------------|--------------------|------------------|
| 2015                     | \$140,000          | \$72,347         |
| 2016                     | 145,000            | 66,888           |
| 2017                     | 150,000            | 61,087           |
| 2018                     | 155,000            | 55,013           |
| 2019                     | 160,000            | 48,580           |
| 2020-2024                | 920,000            | 128,992          |
| <b>Total</b>             | <b>\$1,670,000</b> | <b>\$432,907</b> |

The City has pledged net revenues of the Sewer and Sewer Reserve Fund to repay the revenue bonds. Proceeds from the bonds provided financing for capital improvements to the sewer infrastructure. Net revenues are expected to be 1.25 times the annual debt service requirement. The total principal and interest remaining to be paid on the bonds is \$2,102,907. Principal and interest paid for the current year and net sewer revenue were \$212,410 and \$1,371,015, respectively

**Other Debt - 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 entered into for the replacement of the City’s water transmission line, as required by the Washington State Department of Transportation. The City currently has three PWTF loans with principal outstanding of \$1,413,027. This debt will be repaid from Water and Water Reserve Fund and the Storm Drain and Storm Drain Reserve Fund revenues.

Balances due to other governments currently outstanding are as follows:

| Purpose                                       | Maturity Range | Interest Rate | Original Amount | Amount of Installments |
|---|----------------|---------------|-----------------|------------------------|
| PW-05-691-042<br>Public Works Trust Fund Loan | 2025           | 0.50%         | \$834,700       | \$252,793              |
| PW-06-962-031<br>Public Works Trust Fund Loan | 2026           | 0.50%         | \$538,900       | \$340,358              |
| PW-12-951-048<br>Public Works Trust Fund Loan | 2031           | 0.05%         | \$819,876       | \$819,876              |

Balances due to other governments debt service requirements to maturity are as follows:

| Year Ending<br>December 31, | Principal          | Interest        |
|-----------------------------|--------------------|-----------------|
| 2015                        | \$99,572           | \$5,454         |
| 2016                        | 99,572             | 6,567           |
| 2017                        | 99,572             | 6,069           |
| 2018                        | 99,572             | 5,571           |
| 2019                        | 99,572             | 5,074           |
| 2020-2024                   | 497,862            | 17,900          |
| 2025-2029                   | 320,849            | 6,569           |
| 2030-2031                   | 96,456             | 723             |
| <b>Total</b>                | <b>\$1,413,027</b> | <b>\$53,927</b> |

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2014, the City has restricted assets in proprietary funds containing \$470,123 in reserves as required by bond indentures.

#### **Note 10 – Leases and Contract Obligations**

##### **Operating Leases**

The City of Oak Harbor leases office building and other equipment under non-cancelable operating leases. Total cost for such leases was \$83,126 for the year ending December 31, 2014. The future minimum lease payments for these leases are as follows:

| Year Ending<br>December 31 | Amount           |
|----------------------------|------------------|
| 2015                       | 53,208           |
| 2016                       | 23,828           |
| 2017                       | 9,726            |
| 2018                       | 3,741            |
| 2019                       | -                |
| <b>Total</b>               | <b>\$ 90,503</b> |

##### **Capital Leases**

The City has no capital lease agreements and did not enter into any capital lease agreements during 2014.

##### **Contracts**

The City of Oak Harbor entered into a 6-year agreement with Island Thrift, a local non-profit charitable organization for the use of a modular building. This agreement has subsequently been extended until November 2018. Island Thrift donated \$125,000 to the City of Oak Harbor, \$105,000 of which was to be put towards the purchase of a modular home. In exchange for the payment, the City purchased a modular for the use of its Adult Day Care Respite program. During the period under contract, the modular will be kept on City property at 917 East Whidbey Avenue, Oak Harbor, WA, and both Island Thrift and the City of Oak Harbor hold title. At the end of the 17-year period, November 6, 2018, the City will immediately convey the modular to Island Thrift at which time Island Thrift will have 180 days to remove the modular from City property and title to the modular will be conveyed to Island Thrift.

Although the City makes no monthly or annual payments for the modular, the City has chosen to treat this agreement as capital rent for accounting purposes. The modular has been recorded at its total value and expensed over the 6-years of the original agreement.

The asset acquired through this agreement is as follows:

| Asset             | Governmental<br>Activities |
|-------------------|----------------------------|
| Respite modular   | \$ 138,572                 |
| Less rent expense | (138,572)                  |
| <b>Total</b>      | <b>\$ -</b>                |

**Note 11 – Changes in Long-term Liabilities**

During the year ended December 31, 2014, the following changes occurred in long-term liabilities (inclusive of both portions due within one year and due in more than one year):

|   | Beginning<br>Balance<br>1/1/2014 | Additions         | Reductions          | Ending<br>Balance<br>12/31/2014 | Due Within<br>One Year |
|---|----------------------------------|-------------------|---------------------|---------------------------------|------------------------|
| <b>Governmental Activities:</b>                         |                                  |                   |                     |                                 |                        |
| Pension/OPEB obligation                                 | 697,320                          | 173,989           | (73,780)            | 797,529                         | -                      |
| Compensated absences                                    | 1,178,135                        | -                 | (92,225)            | 1,085,910                       | 111,590                |
| <b>Government activity<br/>long-term liabilities:</b>   | <b>\$ 1,875,455</b>              | <b>\$ 173,989</b> | <b>\$ (166,005)</b> | <b>\$ 1,883,439</b>             | <b>\$ 111,590</b>      |
| <b>Business-type Activities:</b>                        |                                  |                   |                     |                                 |                        |
| Bonds payable:  |                                  |                   |                     |                                 |                        |
| General obligation bonds                                | \$ 2,245,000                     | \$ -              | \$ (100,000)        | \$ 2,145,000                    | \$ 105,000             |
| Revenue bonds   | 1,805,000                        | -                 | (135,000)           | 1,670,000                       | 140,000                |
| Premiums  | 5,307                            | -                 | (237)               | 5,070                           |                        |
| Discounts   | (17,003)                         | -                 | 757                 | (16,246)                        |                        |
| Total bonds payable:                                    | 4,038,304                        | -                 | (234,480)           | 3,803,824                       | 245,000                |
| Due to other governments:                               |                                  |                   |                     |                                 |                        |
| PWTF loans  | 644,495                          | 819,876           | (51,344)            | 1,413,027                       | 99,572                 |
| Compensated absences                                    | 396,517                          | 22,794            | -                   | 419,311                         | 44,549                 |
| <b>Business-type activity<br/>long-term liabilities</b> | <b>\$ 5,079,316</b>              | <b>\$ 842,670</b> | <b>\$ (285,824)</b> | <b>\$ 5,636,162</b>             | <b>\$ 389,121</b>      |

**Note 12 – 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.

As discussed in Note.9 - Long-term Debt, the City of Oak Harbor is contingently liable for repayment of refunded debt.

In March of 2011, the City began construction to improve streetscapes and utility infrastructure along Pioneer Way - the City's historic district arterial. On June 16, 2011, the City inadvertently discovered ancient archeological resources within the arterial roadway of the project which temporarily halted construction. The project was completed on April 13, 2012, with final acceptance on May 9, 2012. There

still remains final completion of the disposition of potentially recovered archeological resources collected from the project site. In March of 2012, the City entered into a contract with Equinox Research and Consulting International (ERCI) to complete, submit, and finalize a permit application to Washington State Department of Archaeology and Historic Preservation (DAHP) which would define the methodological protocols for the recovery effort. The City is in continued mediation negotiation involving the Swinomish Tribal Community, project contractors, and the related insurance providers for each party. The City has settled the majority of the claim elements with all tribes for the amount of \$2,000,000, with the remaining repatriation and archiving yet to be determined.

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 13 – Restricted Components of Net Position**

The government-wide statement of net position reports \$6,487,310 of restricted components of net position which is restricted by statute or enabling legislation.

**Note 14 – 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, 2014.

**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, 2014 were as follows:

| Transfers Out               | Transfers In                |                  |                   |
|-----------------------------|-----------------------------|------------------|-------------------|
|                             | Nonmajor Governmental Funds | Internal Service | Total             |
| General fund                | \$ 117,000                  | \$ 2,598         | \$ 119,598        |
| Nonmajor governmental funds | 125,375                     | -                | 125,375           |
| <b>Total</b>                | <b>\$242,375</b>            | <b>\$2,598</b>   | <b>\$ 244,973</b> |

**Interfund Loan Activity**

There were no interfund loans during 2014.

**Note 15 – 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 comes from utility and marina customer billings. Total receivables coincide with the following statement of net position line items: “Receivable (net)” and “Due from other governments”.

Receivables at December 31, 2014 were as follows:

| Receivables:                      | General Fund       | Nonmajor Governmental Funds | Water Fund       | Sewer Fund       | Solid Waste Fund | Storm Drain Fund  | Marina Fund     | Total              |
|-----------------------------------|--------------------|-----------------------------|------------------|------------------|------------------|-------------------|-----------------|--------------------|
| Property taxes                    | \$142,894          | \$ -                        | \$ -             | \$ -             | \$ -             | \$ -              | \$ -            | \$142,894          |
| Municipal court                   | \$1,524,731        |                             |                  |                  |                  |                   |                 | 1,524,731          |
| Customer accounts                 | 11                 | -                           | 533,318          | 588,438          | 347,594          | 228,674           | 64,921          | 1,762,956          |
| Special assessments               | -                  | 21,291                      | -                | -                | -                | -                 | -               | 21,291             |
| Other accounts                    | 2,086              | -                           | -                | -                | -                | -                 | 903             | 2,989              |
| Other taxes                       | 777,491            | -                           | -                | -                | -                | -                 | 8,983           | 786,474            |
| Grants                            | 421                | -                           | -                | -                | -                | 29,273            | -               | 29,694             |
| Gross receivables                 | 2,447,634          | 21,291                      | 533,318          | 588,438          | 347,594          | 257,947           | 74,807          | \$4,271,029        |
| Less: allowance for uncollectible | (1,373,782)        | -                           | -                | -                | -                | -                 | -               | (1,373,782)        |
| <b>Net total receivables</b>      | <b>\$1,073,852</b> | <b>\$ 21,291</b>            | <b>\$533,318</b> | <b>\$588,438</b> | <b>\$347,594</b> | <b>\$ 257,947</b> | <b>\$74,807</b> | <b>\$2,897,247</b> |

Total governmental activities receivables were \$1,095,143 and business-type activities receivables were \$1,802,104.

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, 2014 was \$163,529 and business-type activities unearned revenue was \$0.

#### **Note 16 – Post-retirement Benefits Other Than Pension Benefits**

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

###### ***Plan Description***

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members necessary hospital, medical, 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. Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report. The City currently has five participants in the LEOFF 1 system consisting of five retired individuals.

###### ***Funding Policy***

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements.

###### ***Annual OPEB Cost and Net OPEB Obligation***

The City's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years as of January 1, 2008. The following table shows the components of the City's annual OPEB cost and the change in the City net OPEB obligation (NOO). The NOO of \$797,529 is included as a noncurrent liability on the Statement of Net Position.

| <b>Fiscal Year Ending<br/>12/31/2014</b>                         |                  |
|--|------------------|
| <b>Determination of annual required contribution</b>             |                  |
| Normal costs at year end   | \$0              |
| Amortization of unfunded actuarial<br>accrued liabilities (UAAL) | 208,814          |
| <b>Annual required contribution (ARC)</b>                        | <b>\$208,814</b> |
| <b>Determination of net OPEB obligation (NOO)</b>                |                  |
| Annual required contribution                                     | \$208,814        |
| Interest on NOO  | 27,893           |
| Adjustments to ARC   | (62,718)         |
| <b>Annual OPEB cost</b>  | <b>173,989</b>   |
| Contribution   | (73,780)         |
| <b>Increase (decrease) in NOO</b>                                | <b>100,209</b>   |
| NOO - beginning  | 697,320          |
| <b>NOO - ending</b>  | <b>\$797,529</b> |

**Funded Status and Funding Progress**

The City's OPEB cost, the percentage of OPEB cost contributed to the plan and the net OPEB obligation were as follows:

| <b>Fiscal<br/>Year<br/>Ended</b> | <b>Annual<br/>OPEB<br/>Cost</b> | <b>Percentage<br/>of Annual<br/>OPEB Cost<br/>Contributed</b> | <b>Net OPEB<br/>Obligations</b> |
|----------------------------------|---------------------------------|---|---------------------------------|
| 12/31/2014                       | \$173,989                       | 42.40%  | \$797,529                       |
| 12/31/2013                       | 196,022                         | 31.20%  | 697,320                         |
| 12/31/2012                       | 133,512                         | 41.05%  | 562,458                         |

As of December 31, 2014, the plan was 0% funded. The City's actuarial value of assets, accrued liability, UAAL, covered payroll and UAAL as a percentage of covered payroll was as follows:

| <b>Fiscal<br/>Year<br/>Ended</b> | <b>Actuarial<br/>Value of<br/>Assets</b> | <b>Actuarial<br/>Accrued<br/>Liability</b> | <b>UAAL</b> | <b>Funded<br/>Ratio</b> | <b>Covered<br/>Payroll</b> | <b>UAAL as a<br/>Percentage of<br/>Covered<br/>Payroll</b> |
|----------------------------------|--|--|-------------|-------------------------|----------------------------|--|
| 12/31/2014                       | -  | 2,321,676                                  | 2,321,676   | 0.00%                   | 32,780                     | 7082.60%   |
| 12/31/2013                       | -  | 2,351,545                                  | 2,351,545   | 0.00%                   | 98,340                     | 2391.24%   |
| 12/31/2012                       | -  | 1,585,877                                  | 1,585,877   | 0.00%                   | 95,472                     | 1661.09%   |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

### **Actuarial Methods and Assumptions**

The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

### **Note 17 – Pollution Remediation Obligations**

GASB Statements 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 utilizes 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 2014.

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 Statement 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.

There have been no obligating events or issues of pollution remediation during 2014.

### **Note 18 – Other Disclosures**

#### **Subsequent Events**

The City will be upgrading existing lighting at City Hall, Fire Station, Marina, Police Department, Public Works Building, Senior Center, and Parks with energy efficient fixture and converting all high intensity discharge street lighting to energy efficient LED lighting. This project is expected to cost \$847,705. The project will be financed by a utility incentive of \$124,061, a Department of Commerce grant of \$210,000 and the remainder from the Local Option Capital Asset Lending (LOCAL) Program.

In April 2015, The City passed Resolution 15-05 to maintain adequate cash flow level to meet the project's obligations before the receipt of the proceed from the LOCAL bond financing. the funds will be borrowed from the Equipment Replacement fund at a rate of 1.0%. The maximum amount loaned shall not exceed \$525,000.

In April 2015, the City signed two agreements with the Department of Ecology for State Revolving Fund (SRF) loans. The first was for \$8,260,000 for the Wastewater Treatment Plant project and the second for \$3,200,000 for the Wastewater Outfall project. Both loans have an interest rate of 2.70% and a 20 years.

**Required Supplementary Information**

LEOFF 1 OPEB Medical Benefits  
Schedule of Funding Progress

| Fiscal<br>Year<br>Ended | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability | UAAL      | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-------------------------|---------------------------------|-----------------------------------|-----------|-----------------|--------------------|--|
| 12/31/2014              | -                               | 2,321,676                         | 2,321,676 | 0.00%           | 32,780             | 7082.60%   |
| 12/31/2013              | -                               | 2,351,545                         | 2,351,545 | 0.00%           | 98,340             | 2391.24%   |
| 12/31/2012              | -                               | 1,585,877                         | 1,585,877 | 0.00%           | 95,472             | 1661.09%   |
| 12/31/2011              | -                               | 1,637,907                         | 1,637,907 | 0.00%           | 189,156            | 865.90%  |
| 12/31/2010              | -                               | 1,441,638                         | 1,441,638 | 0.00%           | 189,156            | 762.14%  |

Schedule of Employer Contributions

| Fiscal<br>Year<br>Ended | Employer<br>Contributions | Other<br>Contributing<br>Entities | Annual Required<br>Contributions<br>(ARC) | Percentage<br>of ARC<br>Contributed |
|-------------------------|---------------------------|-----------------------------------|---|-------------------------------------|
| 12/31/2014              | \$73,780                  | \$ -                              | \$208,814                                 | 35.33%                              |
| 12/31/2013              | 61,160                    | -                                 | 224,112                                   | 27.29%                              |
| 12/31/2012              | 54,801                    | -                                 | 156,787                                   | 34.95%                              |
| 12/31/2011              | 37,510                    | -                                 | 172,848                                   | 21.70%                              |
| 12/31/2010              | 28,995                    | -                                 | 152,595                                   | 19.00%                              |

Please see Note 16 – Post-retirement Benefits Other Than Pension Benefits in the accompanying Notes to the Financial Statements.

## ABOUT THE STATE AUDITOR'S OFFICE

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