

Washington State Auditor's Office
Financial Statements Audit Report

City of Oak Harbor
Island County

Audit Period
January 1, 2008 through December 31, 2008

Report No. 1002879

Issue Date
January 25, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 25, 2010

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,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive.

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Island County
January 1, 2008 through December 31, 2008**

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**Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters in Accordance
with *Government Auditing Standards***

City of Oak Harbor
Island County
January 1, 2008 through December 31, 2008

Council
City of Oak Harbor
Oak Harbor, Washington

We have audited 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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 17, 2009. During the year ended December 31, 2008, the City implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not

identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended for the information and use of management and the Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 17, 2009

Independent Auditor's Report on Financial Statements

**City of Oak Harbor
Island County
January 1, 2008 through December 31, 2008**

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

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, 2008, which collectively comprise the City's basic financial statements as listed on page 5. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oak Harbor, as of December 31, 2008, 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 conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, during the year ended December 31, 2008, the City implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 17, 2009

Financial Section

**City of Oak Harbor
Island County
January 1, 2008 through December 31, 2008**

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Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets – 2008

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City of Oak Harbor
Management Discussion and Analysis
For the Year Ended December 31, 2008

As management of the City of Oak Harbor, we offer readers of the city's financial statements this narrative overview and analysis of the financial activities of the City of Oak Harbor for the fiscal year ended December 31, 2008. This information is provided in an effort to assist the reader in focusing on significant financial events, to provide an overview of the City's financial activity, to identify changes in the City's financial position, to identify deviations from the City's adopted budget, and to identify individual fund issues and concerns. We encourage readers to consider the information presented here in conjunction with additional information presented in the form of financial statements, footnotes, and other data.

Financial Highlights

1. The City's overall financial condition improved in 2008, as compared to 2007.
2. Total City's net assets on a consolidated basis equal \$109,970,145, representing the net difference between assets and liabilities. This balance is comprised of \$63,896,153 invested in net capital assets, net of related debt, \$15,424,239 in restricted net assets for capital projects, \$953,353 in restricted assets for debt service, and \$29,696,400 in unrestricted net assets.
3. As shown on the Statement of Net Assets, fiscal year December 31, 2008 ended with an Unrestricted Net Asset Balance of \$14,737,337 in Governmental Activities. These monies are intended to provide a cushion against significant downturns in revenues and to maintain sufficient working capital and cash flow to meet daily financial needs. Other reserves have been designated by management to address annual budget amendments, vehicle and equipment replacements, major building repairs, and future facility improvements.
4. Total Change in Net Assets, as found on the Statement of Activities, from Governmental activities and Business-type activities is \$1,717,521 and \$4,827,601, respectively.

Overview of the Financial Statements This discussion and analysis are intended to serve as an introduction to the City of Oak Harbor's basic financial statements. The City of Oak Harbor's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The City of Oak Harbor has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* as of January 1, 2002.

Government-wide financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Oak Harbor's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Oak Harbor that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Oak Harbor include general government, judicial, public safety, highways and streets, economic development, senior services, and culture and recreation. The business-type activities of the City include water, sewer, solid waste, and storm water utilities, and a Municipal Marina as well.

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. The City of Oak Harbor, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Oak Harbor maintains 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, as the general fund is

considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the city's full report, which is available upon request.

The City of Oak Harbor adopts a biennial appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City of Oak Harbor maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Solid Waste, and Storm Drainage Utilities and Municipal 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, central stores, labor pool, technology assets, and for facilities maintenance.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Solid Waste, Storm Drainage Utilities and the Municipal Marina as all are considered, or have been designated to be major funds of the City. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements in the city's full report, which is available upon request.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary are consolidate into the government-wide financial statements because the resources of those funds are available to support the City of Oak Harbor's programs. The City does not utilize Fiduciary funds at this time.

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

Other information. In addition to the basic financial statements and accompanying notes, required supplementary information presents a budgetary comparison schedule for the General Fund to demonstrate compliance with the budget.

Government-wide financial analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Oak Harbor, assets exceeded liabilities by \$109,970,145. The largest portion of the City's net assets (58.1 percent) reflects its investment in capital assets (land, buildings, machinery, and equipment), less related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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 liquidate these liabilities.

City of Oak Harbor Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	2008	2007	2008	2007	2008	2007
<u>Assets</u>						
Current	\$22,400,379	\$22,471,653	\$27,840,186	\$25,846,896	\$50,240,565	\$48,318,549
Capital Assets	29,192,168	27,414,102	38,827,552	36,591,874	68,019,720	64,005,976
Total Assets	<u>51,592,547</u>	<u>49,885,755</u>	<u>66,667,738</u>	<u>62,438,770</u>	<u>118,260,285</u>	<u>112,324,525</u>
<u>Liabilities</u>						
Long-term	1,841,667	1,065,822	4,068,947	4,590,894	5,910,614	5,656,716
Other	919,796	1,706,370	1,459,730	1,536,416	2,379,526	3,242,786
Total Liabilities	<u>2,761,463</u>	<u>2,772,192</u>	<u>5,528,677</u>	<u>6,127,310</u>	<u>8,290,140</u>	<u>8,899,502</u>
<u>Investment in Capital assets</u>						
Net of related debt	28,562,958	26,735,802	35,333,195	31,644,169	63,896,153	58,379,971
Restricted	5,530,789	4,746,475	10,846,803	10,389,316	16,377,592	15,135,791
Unrestricted	14,737,337	15,631,286	14,959,063	14,277,975	29,696,400	29,909,261
Total Net Assets	<u>\$48,831,084</u>	<u>\$47,113,563</u>	<u>\$61,139,061</u>	<u>\$56,311,460</u>	<u>\$109,970,145</u>	<u>\$103,425,023</u>

A portion of the City's net assets (14.9 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (27.0 percent) may be used to meet the city's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation was true of the prior year.

Governmental activities. Governmental activities increased the City of Oak Harbor's net assets by \$1,717,521, thereby accounting for all of the total growth in the net assets of the City. Key elements of this increase are as follows:

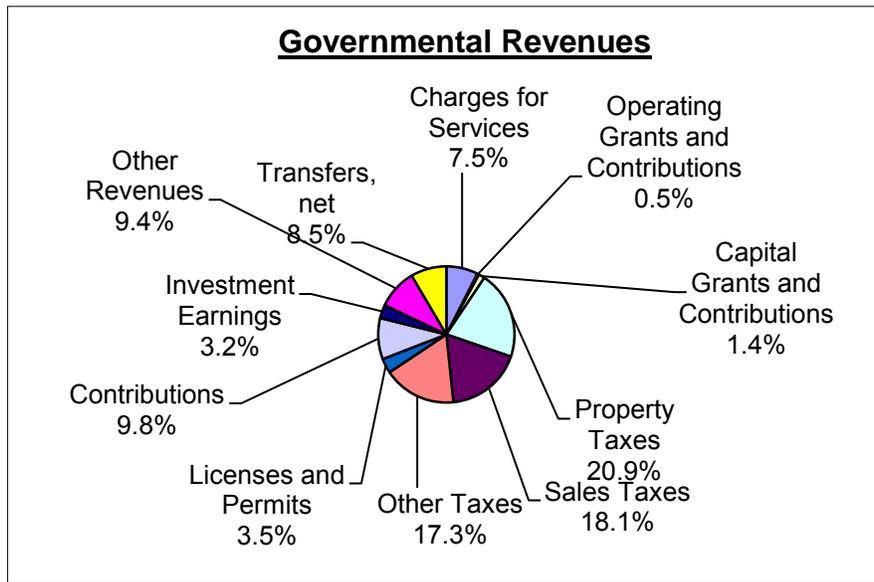
City of Oak Harbor's Change in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenue						
Charges for Service	\$ 1,317,035	\$ 2,122,822	\$ 13,977,073	\$ 13,239,814	\$15,294,108	\$15,362,636
Operating Grants and Contributions	84,265	57,184	38,528	48,014	122,793	105,198
Capital Grants and Contributions	254,418	677,912	889,807	745,421	1,144,225	1,423,333
General Revenues:						
Property Taxes	3,680,344	3,540,358	0	0	3,680,344	3,540,358
Sales Taxes	3,187,625	3,352,977	0	0	3,187,625	3,352,977
Other Taxes	3,050,311	3,239,357	0	0	3,050,311	3,239,357
Other	4,544,567	5,238,075	3,247,595	3,496,704	7,792,162	8,734,779
Total Revenues	16,118,565	18,228,685	18,153,003	17,529,953	34,271,568	35,758,638
Expenses:						
General Government	3,710,141	3,581,883	0	0	3,710,141	3,581,883
Judicial	975,738	403,316	0	0	975,738	403,316
Public Safety	6,941,977	6,269,227	0	0	6,941,977	6,269,227
Physical Environment	955,121	946,747	0	0	955,121	946,747
Transportation	598,680	1,088,470	0	0	598,680	1,088,470
Human Services	70,634	46,268	0	0	70,634	46,268
Economic Environment	1,218,288	1,265,338	0	0	1,218,288	1,265,338
Culture and Recreation	1,376,400	1,367,621	0	0	1,376,400	1,367,621
Interest on Long Term Debt	41,916	127,167	0	0	41,916	127,167
Other Governmental Expenses	5,835	6,294	0	0	5,835	6,294
Expenses - Enterprise Activities						
Water	0	0	3,286,649	3,208,758	3,286,649	3,208,758
Sewer	0	0	2,908,297	2,722,603	2,908,297	2,722,603
Solid Waste	0	0	3,277,528	3,364,296	3,277,528	3,364,296
Storm Drain	0	0	1,041,566	906,671	1,041,566	906,671
Marina	0	0	1,394,009	1,070,145	1,394,009	1,070,145
Total Expenses	15,894,730	15,102,331	11,908,049	11,272,473	27,802,779	26,374,804
Increase in Net Assets before Transfers	223,835	3,126,354	6,244,954	6,257,480	6,468,789	9,383,834
Transfers	1,493,686	1,244,607	(1,417,353)	(1,244,607)	76,333	0
Increase in Net Assets	1,717,521	4,370,961	4,827,601	5,012,873	6,545,122	9,383,834
Net Assets 12/31/2006	47,113,563	42,742,602	56,311,460	51,298,587	103,425,023	94,041,189
Net Assets 12/31/2007	\$48,831,084	\$47,113,563	\$61,139,061	\$56,311,460	\$109,970,145	\$103,425,023

The Transportation component includes streets, arterials, and other traffic related functions. Revenues exceed expenditures during 2008 as intergovernmental revenues and grants are received in advance of construction project expenditures.

The City's utilities show revenues exceeding expenditures as a number of construction projects budgeted for 2008 were deferred until the City's engineering department is fully staffed. In addition, the City establishes utility rates to include a component that is to be set aside as a reserve for future scheduled utility projects.

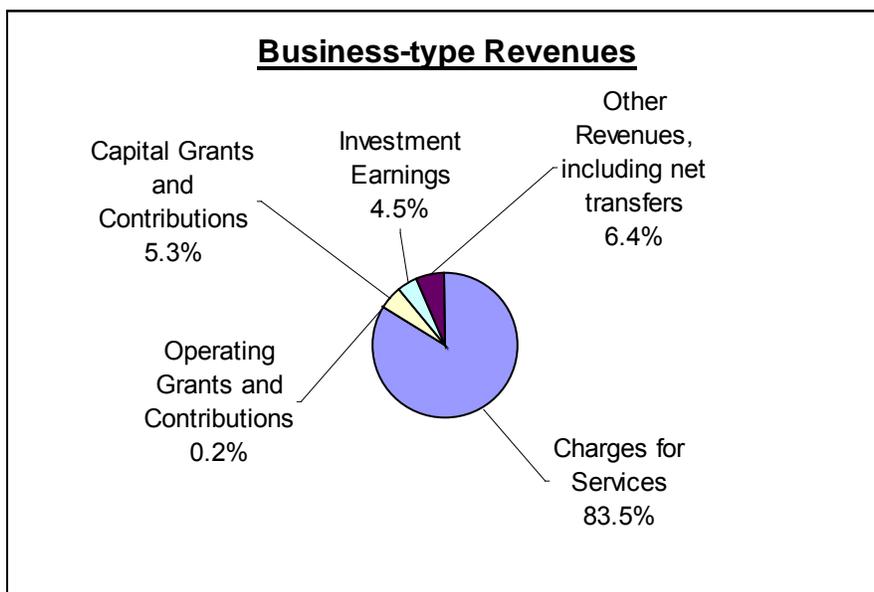
Revenues by Source – Governmental Activities



The above chart includes all government type activities, including capital grants and debt service.

Business-type activities. Business-type activities increased the City of Oak Harbor’s net assets by \$4,827,601. Key reasons for this increase include:

- Deferment of a number of utility system improvements until the Engineering Department is fully staffed;
- A financially secure rate structure
- The continued accumulation of system development fees, service revenue, and other funding sources for capital projects scheduled for future years.



Financial Analysis of the City's Funds

As noted earlier, the City of Oak Harbor uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the city's net resources available for spending at the end of a fiscal year.

As of the end of 2008, the City's governmental funds reported combined ending fund balances of \$16,895,395. Nearly all of this constitutes unreserved fund balance, which is available for spending at the city's discretion. While none of these funds are restricted by legislation or ordinance, portions of the unreserved fund balance are used to pay debt service and for other specific uses.

The general fund is the chief operating fund of the City. At the end of 2008, unreserved fund balance of the general fund was \$6,260,312. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The general fund unreserved fund balance represents 100.0 percent of total General Fund net assets.

The fund balance of the City of Oak Harbor's general fund decreased by \$333,768 during 2008. Key factors include:

- The under expenditure of several city programs due to personnel vacancies.
- Efficiencies in labor costs via the reduction of overtime expenditures.
- Continued strength in sales tax revenues.
- Careful monitoring of expenditures and budgetary compliance.
- The reservation of \$530,460 in uncollectible court revenues awarded in previous years was written off due to a change in accounting estimate. See Note No. 19 of footnotes accompanying this analysis.

Proprietary funds. The City of Oak Harbor's enterprise funds are all presented as major funds for purposes of this report. As a result, all statements related to the enterprise funds are presented at the entity-wide level. The City does have Internal Service funds which are reported in the fund statements.

General Fund Budgetary Highlights

For 2008, the adopted general fund budget for expenditures, net of ending fund balance, was \$12, 865,033, the final budget was \$13,237,358, and the actual expenditures were \$13,460,864. Amendments to the City budget are made for the following purposes:

- Reallocating fund resources between various line items within the General Fund
- To transfer \$70,000 reserved in the General Fund #001 to the Windjammer Park Fund #325 to be utilized for the design and construction of a waterfront trail boardwalk.

- To carryover unexpended appropriations expiring on December 31, 2007 to the actual beginning fund balances as of January 1, 2008.
- Actual expenditures for personnel were less than budgeted due to a number of vacancies in employee positions during the year.

Actual revenues were \$401,164 higher than the final budget, or 103.15%. Actual expenditures are \$223,506 higher than final budget amounts, net of budgeted ending fund balance, or 101.69%. See below for the primary contributing factors:

- Utility tax revenues exceeded projections by \$168,375.
- Cable franchise fees exceeded projections by \$65,997.
- Building permit revenues exceed projections by \$97,990.
- Liquor Control Board related revenues exceeded budgeted estimates by \$39,638.
- The City reserved \$530,460 in additional allowance for uncollectible accounts awarded in previous years due to a change in accounting estimate regarding municipal court accounts receivables.

Capital Assets and Debt Administration

Capital Assets. The City of Oak Harbor's investment in non-current and capital assets for its governmental and business type activities as of December 31, 2008, amounts to \$68,019,720 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment and park facilities. The City has completed its inventory and analysis of its roads, highways, and bridges as capital assets of the city.

Capital assets, net of accumulated depreciation, in governmental activities increased from \$27,414,102 in 2007 to \$29,192,168 primarily due to the extension of the both the Barrington and Bayshore Drive arterials, and the acquisition of vehicles for law enforcement purpose. Capital assets in business-type activities increased from \$36,591,874 in 2007 to \$38,827,552. This increase is primarily due to upgrades to the City's utility infrastructure, relocation costs incurred moving the City's water line along State Route 20, the purchase of new solid waste transport trucks, and to donated capital infrastructure received from developers.

Non-current liabilities. At the end of 2008, the City of Oak Harbor had total non-current liabilities consisting of outstanding bonded debt, PWF loans, and other long-term liabilities as reflected on the Statement of Net Assets, of \$6,520,165. During 2008, the City participated in the issuance of a bond through the Washington State Treasurers LOCAL loan program to obtain \$192,000 in partial financing for the purchase of two fire engines.

Economic Factors and the Next Year's Budgets and Rates

The city continues to recover from the effects of the slow economy and changes in state laws as it develops its budgets and financial plans for the future.

Slow economy. The local economy has experienced some of the deceleration that other communities have felt since the events of September 11, 2001. On a national level, the effects of this event, combined with the economic impacts of the banking insolvencies, real estate

devaluations, and declines in equity markets on a national level, the costs of energy, and the negative effects of the sub-prime market continue to be apparent. From a local perspective, sales taxes represent a significant revenue component and a barometer of the local economy. Sales tax receipts in 2008 were approximately 5% lower than the previous year. It is anticipated that this trend will continue into 2009 and possibly 2010.

The City continues to experience a moderate demand for single family housing. There remain several undeveloped parcels within the City limits that are scheduled for development over the next 24 to 36 months. The 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.

Changes in state law. 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 a one-percent limit to increases in the property tax.

In 1999, the City of Oak Harbor received in excess of \$800,000 per year from the State Motor Vehicle Excise tax, representing approximately 9% of the General Fund. This tax was eliminated in 2000 by the State Legislature which enacted the change after an initiative was approved by the voters; even though the initiative was reversed by the courts as unconstitutional. For a brief time, the state provided “back fill” money to help offset the losses to cities and counties. This amounted to about \$140,000 annually in Oak Harbor. However, the state discontinued the backfill to Oak Harbor in 2004.

During 2008, the State of Washington implemented the Streamlined Sales tax (SST) program of distributing sales tax receipts to local cities. Sales taxes on remote sales now are distributed to the receiving location rather than the location where the remote sale was originated. It is anticipated that the City will received a higher allocation of sales tax receipts from this change as the mix of light manufacturing and order receiving entities is smaller in size than many communities.

In 2001 the voters approved an initiative which reduced the permitted increase in property taxes from six percent to one percent each year. The property tax laws are quite complicated and there is a provision whereby the City of Oak Harbor has “banked” past capacity. However, the various legislative bodies, including the Oak Harbor City Council are very mindful of the voter’s interests in keeping taxes and fees at a minimum.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Oak Harbor, 865 SE Barrington Drive, Oak Harbor, WA 98277.

CITY OF OAK HARBOR
Statement of Net Assets
December 31, 2008

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash & Cash Equivalents	\$ 17,353,273	\$ 23,025,951	\$ 40,379,224
Receivables (net)	332,809	1,781,620	2,114,429
Prepays	-	9,892	9,892
Inventories	3,350	26,530	29,880
Internal Balances	(1,753,249)	1,753,248	(1)
Due From Other Governments	892,542	7,002	899,544
Bond Issue Costs (Net of Accumulated Amortization)	-	56,785	56,785
Restricted Assets:			
Restricted Cash and Cash Equivalents	5,571,654	1,179,158	6,750,812
Capital Assets Not Being Depreciated:			
Land	8,343,261	1,333,347	9,676,608
Construction in Progress	876,149	1,033,552	1,909,701
Capital Assets Net of Accumulated Depreciation:			
Buildings	8,165,845	1,481,569	9,647,414
Improvements Other than Buildings	329,214	32,597,674	32,926,888
Machinery and Equipment	3,371,375	2,381,410	5,752,785
Infrastructure	8,106,324	-	8,106,324
TOTAL ASSETS	\$ 51,592,547	\$ 66,667,738	\$ 118,260,285
 LIABILITIES			
Accounts Payable	\$ 538,417	\$ 611,857	\$ 1,150,274
Accrued Interest Payable	-	56,246	56,246
Other Current Liabilities	275,384	164,897	440,281
Deferred Revenue	105,995	17,179	123,174
Noncurrent Liabilities:			
Due Within One Year:			
Bonds Payable (Net of Unamortized Premium/Discount)	266,313	455,000	721,313
Other Long-Term Liabilities	-	84,552	84,552
Compensated Absences	435,666	69,999	505,665
Due in more than One Year:			
Bonds Payable (Net of Unamortized Premium/Discount)	362,897	3,039,357	3,402,254
Other Long-Term Liabilities	123,289	854,433	977,722
Compensated Absences	653,502	105,000	758,502
Payable From Restricted Assets	-	70,157	70,157
TOTAL LIABILITIES	\$ 2,761,463	\$ 5,528,677	\$ 8,290,140
 NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 28,562,958	\$ 35,333,195	\$ 63,896,153
Restricted for:			
Capital Projects	5,530,789	9,893,450	15,424,239
Debt Service	-	953,353	953,353
Unrestricted	14,737,337	14,959,063	29,696,400
Total Net Assets	\$ 48,831,084	\$ 61,139,061	\$ 109,970,145

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Activities
For the year ended December 31, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
						Primary Government	
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	\$ 3,710,141	\$ 95,214	\$ -	\$ -	\$ (3,614,927)	\$ -	\$ (3,614,927)
Judicial	975,738	-	-	-	(975,738)	-	(975,738)
Public Safety	6,941,977	63,153	19,205	-	(6,859,619)	-	(6,859,619)
Physical Environment	955,121	20	-	-	(955,101)	-	(955,101)
Transportation	598,680	-	29,736	254,418	(314,526)	-	(314,526)
Health and Human Services	70,634	46,361	1,644	-	(22,629)	-	(22,629)
Economic Environment	1,218,288	824,643	17,500	-	(376,145)	-	(376,145)
Culture & Recreation	1,376,400	287,645	16,180	-	(1,072,575)	-	(1,072,575)
Interest on Long-Term Debt	41,916	-	-	-	(41,916)	-	(41,916)
Other Governmental Expenses	5,835	-	-	-	(5,835)	-	(5,835)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 15,894,730	\$ 1,317,035	\$ 84,265	\$ 254,418	\$ (14,239,013)	\$ -	\$ (14,239,013)
Business-Type Activities:							
Water	\$ 3,286,649	\$ 4,247,690	\$ 3,510	\$ 427,027	\$ -	\$ 1,391,578	\$ 1,391,578
Sewer	2,908,297	4,619,293	3,183	244,537	-	1,958,716	1,958,716
Solid Waste	3,277,528	3,439,858	6,813	-	-	169,143	169,143
Storm Drain	1,041,566	1,244,999	16,575	218,243	-	438,251	438,251
Marina	1,394,009	425,233	8,447	-	-	(960,329)	(960,329)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 11,908,049	\$ 13,977,073	\$ 38,528	\$ 889,807	\$ -	\$ 2,997,359	\$ 2,997,359
Total Primary Government	\$ 27,802,779	\$ 15,294,108	\$ 122,792	\$ 1,144,225	\$ (14,239,013)	\$ 2,997,359	\$ (11,241,654)
General Revenues:							
Taxes:							
Property Taxes					\$ 3,680,344	\$ -	\$ 3,680,344
Sales and Use Taxes					3,187,625	-	3,187,625
Business, Occupation, and Other Taxes					3,050,311	-	3,050,311
Total Taxes					\$ 9,918,280	\$ -	\$ 9,918,280
Licenses and Permits					612,606	-	612,606
Grants and Contributions not Restricted to Specific Programs					1,723,162	-	1,723,162
Unrestricted Investment Earnings					564,966	757,758	1,322,724
Miscellaneous					1,616,921	2,486,442	4,103,363
Gain (loss) on Sale of Capital Assets					26,913	3,395	30,308
Transfers					1,493,686	(1,417,353)	76,333
Total General Revenues and Transfers					\$ 15,956,534	\$ 1,830,242	\$ 17,786,776
Change in Net Assets					\$ 1,717,521	\$ 4,827,601	\$ 6,545,122
Net Assets--Beginning					\$ 47,113,563	\$ 56,311,460	\$ 103,425,023
Net Assets--Ending					\$ 48,831,084	\$ 61,139,061	\$ 109,970,145

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Balance Sheet
Governmental Funds
December 31, 2008

ASSETS	General Fund	Other Governmental Funds	Total Governmental Funds
Cash & Cash Equivalents	\$ 6,677,340	\$ 10,509,736	\$ 17,187,076
Restricted Cash	48,000	321,472	369,472
Notes Receivable	-	-	-
Accounts Receivable	1,679,075	414	1,679,489
Less: Allowance for Uncollectibles	(1,346,680)	-	(1,346,680)
Due from Other Funds	60,437	12,931	73,368
Due from Other Governments	16,544	26,606	43,150
Total Assets	\$ 7,134,716	\$ 10,871,159	\$ 18,005,875
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts/Warrants Payable	\$ 194,276	\$ 126,725	\$ 321,001
Due to Other Funds	12,931	2,638	15,569
Deposits Payable	194,633	80,751	275,384
Deferred Revenue	105,995	-	105,995
Compensated Absences	366,569	25,962	392,531
Other LT Liabilities	-	-	-
Total Liabilities	\$ 874,404	\$ 236,076	\$ 1,110,480
 Fund Balances:			
Reserved fo:			
Debt Service	\$ -	\$ -	\$ -
Other Purposes	-	-	-
Unreserved, reported in:			
General Fund	6,260,312	-	6,260,312
Special Revenue Funds	-	5,104,294	5,104,294
Debt Service Funds	-	-	-
Capital Projects Fund	-	5,530,789	5,530,789
Internal Service Funds	-	-	-
TOTAL FUND EQUITY	\$ 6,260,312	\$ 10,635,083	\$ 16,895,395
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,134,716	\$ 10,871,159	

The accompanying notes are an integral part of this statement.

**CITY OF OAK HARBOR
Reconciliation of the Balance Sheet
of Governmental Funds
to the Statement of Net Assets
December 31, 2008**

Total fund balances, governmental funds	\$	16,895,395
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources.		22,992,464
Internal service funds are used by management to charge the costs of fleet management and the shop facility to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		9,606,575
Long-term assets not available to pay for current period expenditures and therefore deferred in the funds.		849,392
Some liabilities, including bonds and interest payable, are not due and payable in the current period and therefore are not reported in the funds		(1,218,009)
The net Other Post-Employment Benefits liability is not due and payable in the current period and therefore is not reported in the governmental funds.		(123,289)
Other Liabilities such as Compensated Absences that are not due and payable in the current period and therefore are not reported in the funds.		(171,444)
Net assets of governmental activities	\$	<u>48,831,084</u>

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
For the year ended December 31, 2008

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u>
REVENUES			
Taxes	\$ 9,238,276	\$ 729,915	\$ 9,968,191
Licenses and Permits	608,556	4,050	612,606
Intergovernmental Revenues	422,873	1,628,987	2,051,860
Charges for Services	409,032	391,967	800,999
Fees and Fines	192,820	-	192,820
Interest Earnings	230,152	316,149	546,301
Miscellaneous	127,820	142,839	270,659
Total Revenues	<u>\$ 11,229,529</u>	<u>\$ 3,213,907</u>	<u>\$ 14,443,436</u>
EXPENDITURES			
Current operating:			
General Government	\$ 2,344,463	\$ -	\$ 2,344,463
Judicial	957,565	-	957,565
Public Safety	6,498,654	-	6,498,654
Public Works	964,598	-	964,598
Transportation	1,662	870,383	872,045
Economic Environment	749,963	456,533	1,206,496
Health and Human Services	51,041	-	51,041
Culture & Recreation	1,108,442	134,635	1,243,077
Debt Service:			-
Principal	-	241,089	241,089
Interest	-	41,916	41,916
Other	-	-	-
Capital Outlay	110,209	791,336	901,545
Total Expenditures	<u>\$ 12,786,597</u>	<u>\$ 2,535,892</u>	<u>\$ 15,322,489</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,557,068)</u>	<u>\$ 678,015</u>	<u>\$ (879,053)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 1,669,368	\$ 926,640	\$ 2,596,008
Transfers Out	(674,267)	(610,243)	(1,284,510)
Sale of Capital Assets	16,246	10,667	26,913
Other Sources	211,953	2,749	214,702
Other Uses	-	-	-
Total other financing sources (uses)	<u>\$ 1,223,300</u>	<u>\$ 329,813</u>	<u>\$ 1,553,113</u>
Net change in fund balance	<u>\$ (333,768)</u>	<u>\$ 1,007,828</u>	<u>\$ 674,060</u>
Fund balances - beginning	\$ 6,594,080	\$ 9,627,256	\$ 16,221,336
Prior Period Adjustments	-	-	-
Fund balances - ending	<u>\$ 6,260,312</u>	<u>\$ 10,635,084</u>	<u>\$ 16,895,396</u>

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 Governmental Funds to the
Statement of Activities
For the year ended December 31, 2008

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

Net change in fund balances - total governmental funds	\$	674,060
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		891,013
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		(39,744)
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		(26,640)
The net Other Post-Employment Benefits (OPEB) expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds		(123,289)
Internal Service Funds are used by the City to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The net costs of the internal service funds are reported with the governmental activities in the Statement of Activities.		342,121
Change in net assets of governmental activities	<u>\$</u>	<u>1,717,521</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 vs ACTUAL
GENERAL FUND
For the Year Ended December 31, 2008

	Budgeted Amounts			Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			
REVENUES:					
Taxes	\$ 9,202,133	\$ 9,202,133	\$ 9,238,276	\$ 36,143	
Licenses and Permits	441,499	441,499	608,556	167,057	
Intergovernmental Revenues	484,075	474,075	422,873	(51,202)	
Charges for Services	534,600	534,600	409,032	(125,568)	
Fees and Fines	158,000	158,000	192,820	34,820	
Interest Earnings	142,000	142,000	230,152	88,152	
Miscellaneous	77,200	77,200	127,820	50,620	
Total Revenues	<u>\$ 11,039,507</u>	<u>\$ 11,029,507</u>	<u>\$ 11,229,529</u>	<u>\$ 200,022</u>	
EXPENDITURES:					
Current:					
General Government	\$ 2,399,036	\$ 2,461,036	\$ 2,344,463	\$ 116,573	
Judicial	395,700	395,700	957,565	(561,865)	
Public Safety	6,626,736	6,627,236	6,498,654	128,582	
Public Works	895,602	1,008,918	964,598	44,320	
Transportation	-	-	1,662	(1,662)	
Economic Environment	775,848	805,848	749,963	55,885	
Health and Human Services	7,400	7,400	51,041	(43,641)	
Culture & Recreation	1,118,245	1,132,645	1,108,442	24,203	
Capital Outlay	88,150	133,150	110,209	22,941	
Total Expenditures	<u>\$ 12,306,717</u>	<u>\$ 12,571,933</u>	<u>\$ 12,786,597</u>	<u>\$ (214,664)</u>	
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (1,267,210)</u>	<u>\$ (1,542,426)</u>	<u>\$ (1,557,068)</u>	<u>\$ (14,642)</u>	
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ 1,696,379	\$ 1,696,380	\$ 1,669,368	\$ (27,012)	
Transfers Out	(558,315)	(665,425)	(674,267)	(8,842)	
Sale of Capital Assets	-	-	16,246	16,246	
Other Sources	-	-	211,953	211,953	
Total Other Financing Sources (Uses)	<u>\$ 1,138,064</u>	<u>\$ 1,030,955</u>	<u>\$ 1,223,300</u>	<u>\$ 192,345</u>	
Net Change in Fund Balance	<u>\$ (129,146)</u>	<u>\$ (511,471)</u>	<u>\$ (333,768)</u>	<u>\$ 177,703</u>	
FUND BALANCES AT BEGINNING OF YEAR	<u>\$ 2,071,020</u>	<u>\$ 2,980,642</u>	<u>\$ 6,594,080</u>	<u>\$ 3,613,438</u>	
FUND BALANCES AT END OF YEAR	<u>\$ 1,941,874</u>	<u>\$ 2,469,171</u>	<u>\$ 6,260,312</u>	<u>\$ 3,791,141</u>	

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Net Assets
PROPRIETARY FUNDS
December 31, 2008

	Business-type Activities Enterprise Funds						Governmental Activities
	Water and Water Reserve	Sewer and Sewer Reserve	Solid Waste	Storm Drain and Storm Reserve	Marina	Totals	Internal Service Funds
	Fund	Fund		Fund			
ASSETS							
Current assets:							
Cash & cash equivalents	\$ 9,335,215	\$ 9,603,442	\$ 2,287,603	\$ 652,426	\$ 1,147,265	\$ 23,025,951	\$ 166,197
Receivables (Net)	546,932	593,301	424,826	187,486	29,075	1,781,620	-
Prepays	-	4,291	-	-	5,601	9,892	-
Inventories	-	-	-	-	26,530	26,530	3,350
Due from Other Funds	-	-	-	-	-	-	-
Due from Other Governments	-	-	-	-	7,002	7,002	-
Bond issue cost (net of accumulated amortization)	-	56,785	-	-	-	56,785	-
Total Current Assets	\$ 9,882,147	\$ 10,257,819	\$ 2,712,429	\$ 839,912	\$ 1,215,473	\$ 24,907,780	\$ 169,547
Noncurrent assets:							
Restricted cash	\$ 449,658	\$ 593,123	\$ 70,857	\$ -	\$ 65,520	\$ 1,179,158	\$ 5,202,182
Capital assets not being depreciated:							
Land	99,589	4,200	201,810	-	1,027,748	1,333,347	-
Construction in progress	902,401	108,171	-	-	22,980	1,033,552	61,009
Capital Assets net of accumulated depreciation:							
Buildings and system	286,154	669,041	-	-	526,374	1,481,569	3,631,306
Improvements other than buildings	12,144,245	18,094,114	124,794	1,249,826	984,695	32,597,674	329,214
Machinery and equipment	777,480	1,470,198	95,067	21,301	17,364	2,381,410	2,178,175
Infrastructure	-	-	-	-	-	-	-
Total Noncurrent Assets	\$ 14,659,527	\$ 20,938,847	\$ 492,528	\$ 1,271,127	\$ 2,644,681	\$ 40,006,710	\$ 11,401,886
Total assets	\$ 24,541,674	\$ 31,196,666	\$ 3,204,957	\$ 2,111,039	\$ 3,860,154	\$ 64,914,490	\$ 11,571,433
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 317,527	\$ 79,862	\$ 136,961	\$ 25,243	\$ 52,264	\$ 611,857	\$ 45,972
Due to Other Funds	9,497	13,646	4,106	20,758	7,579	55,586	2,214
Deposits	4,046	-	700	48,000	92,033	144,779	-
Bonds Payable, Net	-	455,000	-	-	-	455,000	-
Due to Other Governments	84,552	-	-	-	-	84,552	-
Compensated absences	23,009	6,455	12,963	24,145	3,427	69,999	43,135
Interest Payable	2,367	53,879	-	-	-	56,246	-
Retainage	11,316	8,802	-	-	-	20,118	-
Dedicated Proceeds	-	-	-	-	-	-	-
Deferred revenue	12,139	5,040	-	-	-	17,179	-
Total Current Liabilities	\$ 464,453	\$ 622,684	\$ 154,730	\$ 118,146	\$ 155,303	\$ 1,515,316	\$ 91,321
Noncurrent liabilities:							
Bonds Payable, Net	\$ -	\$ 3,040,000	\$ -	\$ -	\$ -	\$ 3,040,000	\$ -
Discount on Bonds	-	(643)	-	-	-	(643)	-
Due to Other Governments	854,433	-	-	-	-	854,433	-
Accrued Wages, Taxes & Benefits	-	-	-	-	-	-	-
Landfill Closure	-	-	70,157	-	-	70,157	-
Compensated absences	34,514	9,683	19,444	36,218	5,141	105,000	64,703
Total Noncurrent Liabilities	\$ 888,947	\$ 3,049,040	\$ 89,601	\$ 36,218	\$ 5,141	\$ 4,068,947	\$ 64,703
Total liabilities	\$ 1,353,400	\$ 3,671,724	\$ 244,331	\$ 154,364	\$ 160,444	\$ 5,584,263	\$ 156,024
NET ASSETS							
Invested in capital assets, net of related debt	\$ 14,209,869	\$ 16,850,724	\$ 421,671	\$ 1,271,127	\$ 2,579,161	\$ 35,332,552	\$ 6,199,704
Restricted for:							
Capital Projects	5,010,361	4,462,378	113,726	306,985	-	9,893,450	-
Debt Service	360,230	593,123	-	-	-	953,353	-
Unrestricted	\$ 3,607,814	\$ 5,618,717	\$ 2,425,229	\$ 378,563	\$ 1,120,549	\$ 13,150,872	\$ 5,215,705
Total net assets	\$ 23,188,274	\$ 27,524,942	\$ 2,960,626	\$ 1,956,675	\$ 3,699,710	\$ 59,330,227	\$ 11,415,409

Some amounts reported for business-type activities in the statement of net assets are difference because: balances in business type activities: \$ 59,330,227
Adjustments to reflect consolidation of internal service fund activities related to enterprise funds 1,808,834
Net assets of business type activities \$ 61,139,061

The accompanying notes are an integral part of this statement.

**CITY OF OAK HARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Business-type Activities Enterprise Funds						Governmental Activities
	Water and Sewer Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste	Storm Drain and Storm Reserve Fund	Marina	Totals	
OPERATING REVENUES:							
Charges For Service	\$ 3,845,119	\$ 4,328,969	\$ 3,211,656	\$ 1,172,303	\$ 412,801	\$ 12,970,848	\$ 1,053,566
System Development Revenue	284,993	183,703	-	-	-	468,696	-
Other Operating Revenues	58,969	1,031	6,990	26,784	870,847	964,621	1,915,212
Total Operating Revenues	\$ 4,189,081	\$ 4,513,703	\$ 3,218,646	\$ 1,199,087	\$ 1,283,648	\$ 14,404,165	\$ 2,968,778
OPERATING EXPENSES:							
Cost of Sales and Service	\$ 1,750,068	\$ 816,554	\$ 915,236	\$ 490,832	\$ 672,967	\$ 4,645,657	\$ 1,850,545
Contractual Services	35,651	35,041	29,337	76,815	242,821	419,665	89,100
Utilities	24,259	212,699	1,104,152	18,744	90,924	1,450,778	9,560
Taxes	410,952	336,098	347,665	84,822	13,863	1,193,400	-
Repairs & Maintenance	88,938	107,047	193,896	65,192	56,871	511,944	28,700
Other Operating Expenses	47,752	53,497	22,759	28,910	43,692	196,610	28,241
Insurance Claims & Expenses	15,848	30,174	16,166	-	32,124	94,312	43,582
Depreciation	608,985	867,008	67,536	91,237	209,108	1,843,874	631,626
Total Operating Expenses	\$ 2,982,453	\$ 2,458,118	\$ 2,696,747	\$ 856,552	\$ 1,362,370	\$ 10,356,240	\$ 2,681,354
Operating Income (Loss)	\$ 1,206,628	\$ 2,055,585	\$ 521,899	\$ 342,535	\$ (78,722)	\$ 4,047,925	\$ 287,424
Nonoperating Revenues (Expenses):							
Interest Income	\$ 285,425	\$ 306,523	\$ 90,290	\$ 24,569	\$ 31,507	\$ 738,314	\$ 38,109
Other Non-Operating Revenues	570,364	12,056	276	-	-	582,696	1,000
Gain (Loss) On Sale of Fixed Assets	-	-	3,395	-	-	3,395	-
Interest Expense	(4,956)	(178,827)	-	-	-	(183,783)	-
Other Non-Operating Expenses	-	-	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	\$ 850,833	\$ 139,752	\$ 93,961	\$ 24,569	\$ 31,507	\$ 1,140,622	\$ 39,109
Net Income (Loss) Before contributions and Transfers	\$ 2,057,461	\$ 2,195,337	\$ 615,860	\$ 367,104	\$ (47,215)	\$ 5,188,547	\$ 326,533
Capital Contributions	427,027	244,537	-	218,243	-	889,807	-
Transfers In	423,928	-	-	25,000	-	448,928	371,964
Transfers Out	(977,516)	(502,636)	(240,011)	(335,894)	-	(2,056,057)	-
Change in Net Assets	\$ 1,930,900	\$ 1,937,238	\$ 375,849	\$ 274,453	\$ (47,215)	\$ 4,471,225	\$ 698,497
Net Assets - Beginning	\$ 21,257,374	\$ 25,587,704	\$ 2,584,777	\$ 1,682,222	\$ 3,746,925	\$ 54,859,006	\$ 10,716,912
Prior Period Adjustments	-	-	-	-	-	-	-
Net Assets - Ending	\$ 23,188,274	\$ 27,524,942	\$ 2,960,626	\$ 1,956,675	\$ 3,699,710	\$ 59,330,231	\$ 11,415,409

Amounts reported for business-type activities in the statement of net assets are different because:
Adjustment to reflect the consolidation of internal service fund activities reallocated to enterprise funds.
Change in net assets of business-type activities

\$4,471,225
356,376
\$4,827,601

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Cash Flows
Increase (Decrease) In Cash and Cash Equivalents
Proprietary Funds
For the Year Ended December 31, 2008

	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste	Storm Drain and Storm Reserve Fund	Marina	Totals	Governmental Activities Internal Service Funds
\$	4,245,762	4,146,971	3,249,445	1,206,472	1,273,992	14,122,642	-
	(2,373,468)	(1,591,110)	(2,629,211)	(765,315)	(1,153,262)	(8,512,366)	2,823,476
	-	-	-	-	-	-	-
	-	-	-	-	-	-	(2,049,728)
\$	1,872,294	2,555,861	620,234	441,157	120,730	5,610,276	773,748

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Customers and Users
 Receipts from Interfund Services Provided
 Payments to Suppliers
 Payments to Employees
 Payments for Interfund Services Used
 Net Cash Provided by Operating Activities:

CASH FLOWS FROM NONCAPITAL FINANCING

ACTIVITIES:
 Transfers to Other Funds
 Advances from Other Funds
 Payments to Other Funds
 Receipts from Miscellaneous Revenues
 Receipts from Other Funds
 Non-Operating Expenses
 Contributions/Deposits
 Receipt for Taxes
 Net Cash Provided (Used) by Noncapital Financing Activities

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from Capital Debt
 Purchases of Capital Assets
 Principal Paid on Capital Debt
 Interest Paid on Capital Debt
 Prior Period Adjustments
 Debt Issue Costs
 Contributed Capital Assets
 Proceeds from Sales of Capital Assets
 Net Cash Provided (Used) by Capital and Related Financing Activities

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends Received
 Net Cash Provided (Used) by Investing Activities

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents, January 1
 Cash and Cash Equivalents, December 31

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Cash Flows
Increase (Decrease) In Cash and Cash Equivalents
Proprietary Funds
For the Year Ended December 31, 2008

	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste	Storm Drain and Storm Reserve Fund	Marina	Totals	Governmental Activities Internal Service Funds
Operating Income (Loss)	\$ 1,206,628	\$ 2,055,565	\$ 521,899	\$ 342,555	\$ (78,722)	\$ 4,047,925	\$ 287,424
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation expense	608,985	867,008	67,536	91,237	209,108	1,843,874	631,626
(Increase) decrease in accounts receivable	(106,210)	(76,767)	(6,831)	(45,112)	(14,542)	(249,462)	-
(Increase) decrease in due from other funds	8,456	3,134	1,987	9,955	-	23,532	-
(Increase) decrease in due from other governments	-	-	14,634	435	1,789	16,858	-
(Increase) decrease in inventories	-	-	-	-	1,125	1,125	4,916
(Increase) decrease in prepaids	-	(449)	-	-	(616)	(1,065)	-
Increase (Decrease) in Retainage	11,316	4,342	-	-	-	15,658	-
Increase (decrease) in accounts payable	143,239	(297,020)	10,839	13,266	4,081	(125,595)	(152,512)
Increase (decrease) in compensated absences payable	1,833	2,342	4,314	4,084	(964)	11,609	5,353
Increase (decrease) in accrued interest	475	(7,105)	-	-	-	(6,630)	-
Increase (decrease) in accrued wages & benefits	-	-	-	-	-	-	-
Increase (decrease) in landfill closure	-	-	-	-	-	-	-
Increase (decrease) in deferred revenue	(3,328)	-	-	-	-	(3,328)	-
Increase (decrease) in long-term liabilities	2,750	3,513	6,471	6,127	(1,445)	17,416	8,031
Increase (decrease) in due to other funds	(1,850)	1,278	(615)	18,630	916	18,359	(11,090)
Prior Period Adjustments	-	-	-	-	-	-	-
Total Adjustments	\$ 665,666	\$ 500,276	\$ 98,335	\$ 98,622	\$ 199,452	\$ 1,562,351	\$ 486,324
Net Cash Provided (Used) by Operating Activities	\$ 1,872,294	\$ 2,555,861	\$ 620,234	\$ 441,157	\$ 120,730	\$ 5,610,276	\$ 773,748
Noncash Activities:							
Contributions and Adjustments of Capital Assets from Developer Construction	\$ 427,027	\$ 244,537	\$ -	\$ 218,243	\$ -	\$ 889,807	\$ -

The accompanying notes are an integral part of this statement.

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. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

REPORTING ENTITY

The City of Oak Harbor was incorporated on May 14, 1915 and 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 Manager 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 Manager.

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 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 Governmental Accounting Standards Board (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.

BASIC 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. Governmental activities, which are normally 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.

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. For the most part, the effect of interfund activity has been removed from these statements. 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 Assets and the Statement of Activities.

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*.

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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the City's business-type activities/enterprise funds, as well as some 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.

Basis of Presentation

Financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenses/expenditures. The various funds are reported by generic classification within the financial statements.

The new GASB 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City reports the General Fund and all Proprietary Funds as major funds. Non-major funds are combined in a column in the fund financial statements.

General Fund

This is the City's primary operating fund. It accounts for all the financial operations of the City except those that are required to be accounted for in another fund. Principal sources of

revenue are property taxes, licenses and permits, state and county shared revenues and charges for administrative services from other funds. Primary expenditures are for general government, police and fire protection and culture and recreation.

Additionally, the City reports non-major funds within the governmental fund type. These funds account for revenues derived from specific taxes, grants, or other sources that are designated to finance particular activities of the City.

- Ø *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- Ø *Debt Service Funds* account for the accumulation of resources to pay principal, interest and related costs on (certain) general long-term (bonded) debt.
- Ø *Capital Projects Funds* account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by Business or Proprietary Funds).

The City's *Special Revenue Funds* include the following entities:

The *Street Fund #101* receives State-shared gasoline tax revenues and Capron funds. Capron funds are State-shared revenues comprised of gasoline taxes and motor vehicle license fees. Island and San Juan Counties and municipalities within these counties are the only recipients of Capron funds. Revenues are used for maintenance of the City streets.

The *Arterial Street Fund #104* receives State-shared gasoline tax revenues and State grants for capital improvements to the City's arterial street system.

The *Transportation Capital Improvement Fund #105* collects revenues on development activity to be used for expenditures on improvements to public streets and roads.

The *Paths & Trails #106* Fund accounts for ½ of 1% of the Motor Vehicle Fuel Tax. These taxes are dedicated for the construction of pedestrian/bicycle paths and trails within the City.

The *Cumulative Street Reserve Fund #110* reserves matching funds for grant requirements and as a contingency reserve for unanticipated expenditures.

The *Civic Improvement (2%) Fund #116* receives hotel/motel tax revenues for expenditure on the promotion of tourism. The City receives both the basic 2% and the additional 2% lodging taxes.

The *Park Improvement - Neighborhood Parks Fund #125* receives revenue from developers for constructing and maintaining new and established neighborhood parks.

The *Park Improvement - Community Parks Fund #126* receives revenue from developers for constructing and maintaining new and established larger scale community parks.

The *Senior Center Fund #129* receives participant fees, grant revenues, and contributions from The City's General Fund and Island County for expenditures associated with providing services and activities for the senior citizens in Oak Harbor and Island County.

The City's *Debt Service Funds* include the following accounting entities:

1996 \$2,680,000 Unlimited Tax General Obligation Refunding Bond - Public Safety and Fire Station Fund accounts for the advance refunding of the callable portion of the City's 1987 \$1,065,000 G.O. Bond and advance refunding of the City's 1991 \$2,672,000 G.O. Bond.

2008 \$192,000 LOCAL Bond - Fire Equipment Fund accounts for the debt service payment on the financing for two new fire engines.

The City's *Capital Projects Funds* include the following entities:

The *Cumulative Reserve 1st ¼% Real Estate Excise Tax Fund #311* collects the first ¼% excise tax on the sales price from the exchange of all real estate. These funds are deposited into this fund and must be used for capital-type projects necessary to implement Growth Management Act-related improvements.

The *Cumulative Reserve 2nd ¼% Real Estate Excise Tax Fund #312* collects the second ¼% excise tax on the sales price on the exchange of all real estate. These funds are deposited into this fund and must be used for capital projects identified in the City's Capital Facilities Plan.

The *Construction – Municipal Pier Project Fund #320* is one of the City's Capital Projects Funds. This fund accounts for the construction activity related to the Municipal Pier Project.

The *Waterfront Redevelopment Fund #325* receives funding from various grant, lodging tax, and subsidy sources to be used in the redevelopment of Windjammer Park project.

The *Scenic Heights LID Fund #361* is another of the City's Capital Projects Funds. This fund accounts for the financial activity related to the Scenic Heights LID project.

Proprietary Funds

The City electively reports all of its five enterprise funds as major funds for specific community focus. These funds are used to account for the acquisition, operation, and maintenance of water, sewer, solid waste, storm water, and marina facilities.

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 City's five enterprise funds are collected primarily through user charges. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

∅ *Enterprise Funds* operate in a manner similar to private business enterprises where the intent is to provide goods or services to the general public and be reimbursed primarily

through user charges. An enterprise fund may also be established when the governing body decides that periodic determination of net income is needed.

- Ø *Internal Service Funds* account for operations that provide goods or services to other departments or funds of the city on a cost-reimbursement basis.

The City reports the following enterprise funds:

The *Water Fund #401 and Water Cumulative Reserve Fund #411* accounts for the operations and capital planning of the City-owned water utility. The water department maintains three storage tanks, approximately 98 miles of water mains, three booster pumps and associated appurtenances. The distribution system serves the City of Oak Harbor and supplies water to the U.S. Naval Air Station at Whidbey Island.

The *Sewer Fund #402 and Sewer Cumulative Reserve Fund #412* accounts for the operations and capital planning of the City-owned sanitary sewer utility. The City's sewer treatment plant and sewer treatment lagoons provide secondary treatment. The sewer department maintains approximately 66 miles of sanitary sewer mains, 10 remote lift stations and associated appurtenances. The collection and treatment system serves the City of Oak Harbor and a portion of the U.S. Naval Air Station at Whidbey Island.

The *Solid Waste Fund #403 and Solid Waste Cumulative Reserve Fund #113* accounts for the operations of the City-owned solid waste utility. The solid waste utility provides full service solid waste, recycling and yard waste. This utility serves the City of Oak Harbor.

The *Storm Drain Fund #404 and Storm Drain Cumulative Reserve Fund #414* accounts for the operations and capital planning of the City-owned storm drain utility. The storm drain utility consists of 10 City-owned detention facilities and control structures and maintains approximately 45 miles of storm drain pipe, roadside ditches and bio-swales. This utility serves the City of Oak Harbor.

The *Marina Fund #410* accounts for the operations of the City-owned Marina. This full-service marina has moorage berths, dry storage sheds and dry landing storage. Other services provided are: temporary moorage, electricity, fuel, boat dolly, grid and launcher.

Additionally, the City reports its four internal service funds that provide goods and services to other departments or agencies of the City on a cost-reimbursement basis.

The *Equipment Repair Fund #501* accounts for the motor-pool operations of the City. Maintenance, operation, and depreciation costs are charged to each user department on a monthly basis. Equipment Rental finances replacement of all vehicles and heavy equipment. Cash reserves or "sinking funds" are established to fully fund vehicle and major equipment needs at the time of purchase.

As of January 1, 2007, the Equipment Repair Fund #501 was split into two funds: The Equipment Repair Fund #501 and The Equipment Replacement Fund #502. The Equipment Replacement Fund #502 will be utilized to accumulate funds for future purchases of vehicles and equipment.

The *Technology Fund #505* accounts for the purchase and acquisition of technologically oriented equipment such as the City's voice over internet protocol phone upgrade, the tele-video studio and other technical equipment.

The *Shop Facility Fund #510* accounts for the cost of operating the Public Works Facility Campus and supervision of the various Public Works divisions. The Public Works Campus was constructed following the issuance of a long-term bond. Each division that is housed at the facility is charged space rent, with the annual proceeds used to pay maintenance, overhead, and the annual debt service on the construction bonds.

The City does not currently have Trust or Agency Funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus.

The Government-wide Financial Statements and the Proprietary Funds Financial Statements are presented on a *full accrual* basis of accounting with an *economic resource* measurement focus. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental Funds Financial Statements are presented on a *modified accrual* basis of accounting with a *current financial resource* measurement focus. This measurement focus concentrates on the fund's resources available for spending in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus and full accrual accounting, a current financial resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual 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. BARS allows for the recognition of revenues to no more than 60 days however, since the City is not always able to obtain timely information to estimate the accrued amounts it chooses not to accrue taxes received in January or February in order to remain consistent with prior years. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources before it has a

legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

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 City's Water, Sewer, Solid Waste, Storm Water and Marina Funds are charges to customers for sales and services. The Water, Sewer and Storm Water Funds also recognize fees intended to recover the cost of connecting new customers to the City's utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

BUDGETARY INFORMATION

Biennial appropriated budgets are adopted for the Current Expense, Special Revenue, Debt Service, Capital Projects Funds, and Proprietary Funds. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only.

Biennial appropriated budgets are adopted at the level of the fund, except in the General (Current Expense) Fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

Appropriations for general and special revenue funds lapse at the end of the second year of the fiscal biennium (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriations has been accomplished or abandoned).

Procedures for Adopting the Original Budget

The City's biennial budget procedures are mandated by RCW 35A.34. The process under which the budget is adopted is described in the following paragraphs.

Prior to the first Tuesday in November the Finance Director submits a proposed budget to the Mayor and City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Finance Director.

During the months of November and December, the Council conducts public hearings on the proposed budget for the purpose of obtaining citizens' comments. The Council makes its adjustments and adopts by ordinance a final balanced budget no later than December 31. Within 30 days of adoption, the final budget is available to the public.

Mid-Biennial Review and Modification

A mid-biennial review and modification of the biennial budget occurs no sooner than eight months after the start nor later than the conclusion of the first year of the fiscal biennium. The Finance Director prepares the proposed budget modification and provides for publication of notice of hearings consistent with publication of notices for adoption of other City ordinances. Copies of the proposed modification are distributed to members of the City Council. Copies of the proposed modification are available to the public at the office of the City Clerk and at public hearings thereon.

Immediately following the preparation of the proposed budget modification by the Mayor, Public hearings on the proposed budget modification are held. The City Clerk publishes a notice once each week for two consecutive weeks stating that the budget modification has been proposed, and a copy thereof will be furnished to any member of the public who will call at the Clerk's office, and that the City Council will meet on or before the first Monday of the month next preceding the beginning of the second year of the fiscal biennium, but not before September 1 of the first year of the fiscal biennium, for the purpose of fixing the budget for the second year of the fiscal biennium, designating the date, time and place of the City Council meeting and that any taxpayer may appear there at and be heard for or against any part of the proposed budget modification. The publication of the notice is made in the official newspaper of the City. The budget modification, if any, is approved in the same manner as other ordinances of the City.

The budget amounts shown in the financial statements do not represent total appropriations for the entire biennial budget period. The budget amounts shown represent appropriations for a single calendar year within the biennial budget.

Amending the Budget

The Finance Director is authorized to transfer budgeted amounts between object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one or more than the majority after holding public hearing(s).

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.

Deficit Fund Equity

As of December 31, 2008, the City has one fund reflecting a deficit fund balance. Fund #501 Equipment Repair Fund shows a negative balance of \$37,456. This deficit is due to the timing of billings processed to other internal departments. The City anticipates this deficit fund balance will be reversed early in 2009.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

It is the City's policy to invest all temporary cash surpluses. As of December 31, 2008, the treasurer was holding \$40,379,224 in short-term residual investments of surplus cash. This amount is included in the amount 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.

Receivables

Taxes receivable consists of property taxes and related interest and penalties (see Property Taxes Note No. 5). 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.

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.” A separate schedule of interfund loans receivable and payable is furnished in Note No. 15 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 debt service, landfill closure requirements, a 24” waterline reserve, and certain customer deposits. Specific debt service reserve requirements are described in Note No. 10 (Long-Term Debt).

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

	<u>Governmental</u>	<u>Business-type</u>
Debt Service	\$ -	953,353
Designated Reserves	191,861	155,648
Equipment Replacement	5,202,182	-
Fire Impact Fees	48,000	-
Landfill Closure Reserves	-	70,157
Park Impact Fees (Neighborhood)	129,611	-
Total Restricted Cash	\$5,571,654	\$1,179,158

Capital Assets

The City of Oak Harbor has chosen to capitalize and report all of its general infrastructure assets that have been acquired (purchased, constructed and donated) in the year 2002 statements rather than phase in the assets. The City implemented accounting of all it’s infrastructure retroactively and is depreciating the assets using the traditional straight-line method. 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.

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. During 2006, the City revalued the historical basis of some capital assets donated by outside parties received during the years 2002 through 2005. This revaluation is a result of corrections of assumptions in the engineering estimates used to quantify the value of these donations. The valuations are now recorded using the cost amount as evidenced on the donor's bill of sale to the City.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. In governmental and similar trust 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. A maximum of 180 days sick leave may be accumulated.

At termination of employment, 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 (See Long-Term Debt Note No.10)

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 Assets. 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.

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.

Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

Fund Reserves and Designations

Tentative plans for utilization of fund balances in future periods are recorded as designations of fund balance in the fund-level financial statements. Planned expenditures include future capital projects, debt service, equipment reserves and other commitments for which fund balances have not been appropriated or specifically segregated.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds' balance sheet includes a reconciliation between fund balance – total governmental funds and net assets–governmental activities as reported in the government-wide statement of net assets. The following represent the reconciling items:

Fund Equity – Total Governmental Funds	\$16,895,395
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$22,992,464
Internal service funds are used by management to charge the costs of certain activities. The assets and liabilities of these funds are included in the governmental activities in the Statement of Net Assets.	\$ 9,606,575
Long-term debts are not due and payable in the current period and therefore are not reported in the funds.	\$ (1,218,009)
Other assets are not available to pay current expenditures and therefore not reported in the funds.	\$ 849,392
The net Other Post-Employment Benefits liability is not due and payable in the current period and therefore is not reported in the governmental funds.	\$ (123,289)
Other liabilities that are not due and payable in the current period and are not reported in the funds.	<u>\$ (171,444)</u>
Net assets of governmental activities	<u>\$48,831,084</u>

Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. Elements of the reconciliation include the net increase in governmental net assets, increases in long-term debt or other long-term liabilities, and certain activities of internal service funds that are allocated to governmental activities outside of the funds themselves. The following represent the reconciling items:

Net change in fund balances – total governmental funds	\$ 674,060
Net Increase in capitalized assets exceeding depreciation	\$ 891,013
Revenues that do not provide current financial resources	\$ (39,744)
Some expenses that do not require the use of current financial resources	\$ (26,640)
The net Other Post-Employment Benefits (OPEB) expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds	\$ (123,289)
Net revenues of certain activities of internal service funds are reported with governmental activities	<u>\$ 342,122</u>
Change in net assets of governmental activities	<u>\$ 1,717,521</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

One of the City's funds appears to have exceeded its authorized appropriation authority for 2008. The Equipment Repair Fund #501 exceeded its expenditure authority in the amount of \$20,855. This overage is attributable to urgently needed and unforeseen parts and inventory purchases made during the last portion of December.

NOTE 4 - DEPOSITS AND INVESTMENTS

As required by state law, all investments and deposits of the City's funds are obligations of the U.S. Government, the State Treasurer's Investment Pool, bankers' acceptances, deposits with Washington State banks and savings and loan institutions.

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

Notes

Investments	\$ 36,975,514
Deposits	<u>10,154,522</u>
Total	<u>\$ 47,130,036</u>

Financial Statements

Governmental Funds - Cash and Cash Equivalents	\$ 17,187,076
Governmental Funds - Restricted Cash	369,472
Business-type Funds - Cash and Cash Equivalents	23,025,951
Business-type Funds - Restricted Cash	1,179,158
Internal Service Funds - Cash and Cash Equivalents	166,197
Internal Service Funds - Restricted Cash	<u>5,202,182</u>
Total	<u>\$ 47,130,036</u>

Deposits

On December 31, 2008 the carrying amount of the City's cash demand deposits, including money market accounts was \$10,154,522 and the bank balance with US Bank of Washington was \$10,794,958. Petty cash on hand totaled \$7,634. The FDIC insures the first \$250,000 of the City's demand deposits and separately insures the first \$250,000 in the aggregate of the City's time deposits and savings deposits. The remaining deposit balances are insured by the Washington Public Deposit Protection Commission (WPDPC) Act of 1969. The WPDPC is a multiple financial institution collateral pool. State statute permits additional amounts to be assessed on a pro rata basis to members of the pool in the event the pool's collateral should be insufficient to cover a loss.

Investments

The City has \$23,795,534 in the State's Local Government Investment Pool (LGIP) which is managed by the Washington State Treasurer's Office. The LGIP is not SEC registered but has oversight provided by the following sources: 1) annually audited by the Office of the State Auditor; 2) annually audited by an outside, independent auditor; 3) an Advisory Committee meets quarterly to advise the State Treasurer on issues regarding the LGIP; 4) monthly statement enclosures detailing portfolio breakdown and earnings information sent to participants; and, 5) quarterly newsletters that include a compliance report and quarterly financials. Financial reports are available at the State Treasurers Office, P.O. Box 40200, Olympia, Washington, 98504-2000.

Long term investments (maturities over 90 days) are purchased through broker relationships. All of the City's investments at year-end were held by the Trust Department of the City's depository bank in the City's name. The City does not hold any investments for other local governments, individuals or private organizations.

Investments are reported within Cash and Investments of Governmental Activities and within Cash and Cash Equivalents or Investments of Business-type Activities. As of December 31, 2008, the City had the following investments:

<u>Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>
Washington State Investment Pool (LGIP)	\$ 23,795,534	1.33
Federal Home Loan Mortgage Corp.	7,078,780	3.20
Federal Home Loan Bank	4,094,600	1.97
Federal Farm Credit Bank	2,006,600	<u>0.50</u>

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average maturity of its investment portfolio to less than 12 months.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP, a 2a7-like pool, as defined by GASB 31, is unrated. The policy of the LGIP is to invest in securities and instruments that are rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Investors Services, Inc.

To limit risk, state law does not allow general governments such as the City to invest in corporate debt. However, the Pension Fund is not restricted by state law to invest in corporate debt with ratings equivalent or above the single "A" rating by nationally recognized statistical rating organizations. The ratings of debt securities as of December 31, 2008 are:

<u>Debt Security</u>	<u>S&P Rating</u>
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA
Federal Home Loan Bank	AAA
Federal Farm Credit Bank	AAA

Concentration of credit risk: City of Oak Harbor diversifies its investments by security type and institution. 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.

Custodial credit risk-investments: This is the risk that, in event of a failure of the counterparty to an investment transaction, the City would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of December 31, 2008, the City did not have any investments that are subject to the custodial credit risk.

NOTE 5 - PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue 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 minus the Sno-Isle Library rate of \$.35 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

1. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lower of the Implicit Price Deflator or 1%, before adjustments for new construction. If the assessed valuation increases by more than 6% due to revaluation, the levy rate will be decreased.
2. The Washington State Constitution limits the regular (non-voted) combined property tax rate applied to an individual's property to 1% (\$10 per \$1,000) of the market valuation. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The City's regular levy for 2008 was \$1.803 per \$1,000 on an assessed valuation of \$1,918,845,230 for a regular levy of \$3,459,707.

The City's General Obligation bond levy for 2008 was \$0.1305 per \$1,000 on an assessed valuation of \$1,905,953,067 for a total bond levy of \$248,770.

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, pathways, street lights, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In the governmental fund statements, capital assets are charged to expenditures as purchased, and capitalized in the proprietary fund statements. Capital 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.

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. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided using the straight-line method over the following estimated useful lives:

<u>ASSET</u>	<u>YEARS</u>
Buildings and improvements	25-40
Improvements other than buildings	10-20
Machinery and equipment	5-10
Vehicles	5-10
Utility systems	25-40
Infrastructure	20-40

City of Oak Harbor, Washington

Capital assets activity for the year ended December 31, 2008 was as follows:

Governmental Type Activities:	Beginning Balance			Ending Balance
	1/1/2008	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 1,824,765	\$ 70,899	\$ -	\$ 1,895,664
Recreation Areas	5,163,654	1,354,842	(70,899)	6,447,597
Construction in Progress	2,668,751	145,487	(1,938,089)	876,149
Total Assets Not Depreciated:	\$ 9,657,170	\$ 1,571,228	\$ (2,008,988)	\$ 9,219,410
Assets Depreciated:				
Buildings	\$ 12,722,894	\$ -	\$ -	\$ 12,722,894
Capital Lease	138,572	-	-	138,572
Improvements	374,980	26,853	-	401,833
Machinery & Equipment	9,236,871	1,844,420	(763,176)	10,318,115
Infrastructure	23,722,638	1,886,899	-	25,609,537
Total Assets Depreciated:	\$ 46,195,955	\$ 3,758,172	\$ (763,176)	\$ 49,190,951
Less: Accumulated Depreciation:				
Buildings Depreciation	\$ (4,295,009)	\$ (262,040)	\$ -	\$ (4,557,049)
Capital Lease Depreciation	(138,572)	-	-	(138,572)
Improvements Depreciation	(52,751)	(19,868)	-	(72,619)
Machinery & Equipment Depreciation	(6,987,181)	(713,624)	754,065	(6,946,740)
Infrastructure Depreciation	(16,965,510)	(537,703)	-	(17,503,213)
Total Depreciation:	\$ (28,439,023)	\$ (1,533,235)	\$ 754,065	\$ (29,218,193)
Total Assets Depreciated (Net):	\$ 17,756,932	\$ 2,224,937	\$ (9,111)	\$ 19,972,758
Governmental Activities				
Total Capital Assets (Net):	\$ 27,414,102	\$ 3,796,165	\$ (2,018,099)	\$ 29,192,168

The schedule above shows an increase in accumulated depreciation in the amount of \$1,533,235. This balance consists of \$1,467,728 in actual depreciation expense, plus a recorded increase in accumulated depreciation of \$65,507 resulting from a transfer of technologically related assets from the Equipment Replacement Fund #502 to the Technology Fund #505. The transaction resulted in a increase in accumulated depreciation in Fund #505 when the assets were rerecorded, and an decrease in accumulated depreciation in Fund #502 as these assets were removed and transferred between the two funds. Accordingly, the \$754,065 in accumulated depreciation decreases includes \$65,507 from this transaction.

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

Governmental activities:	2008
General governmental	\$ 51,120
Public safety	87,148
Utilities and environment	25,292
Transportation	541,586
Mental and physical health	15,045
Cultural and recreational	115,911
Internal service fund capital assets are charged to the various functions based on their usage of the assets	631,626
Total depreciation expense - governmental activities	<u>\$ 1,467,728</u>

Business Type Activities:	<u>Beginning Balance</u>			<u>Ending Balance</u>
	1/1/2008	Increases	Decreases	12/31/2008
Capital assets not being depreciated:				
Land	\$ 1,333,347	\$ -	\$ -	\$ 1,333,347
Construction in Progress	4,212,360	1,029,552	(4,208,360)	1,033,552
Total Assets Not Depreciated:	\$ 5,545,707	\$ 1,029,552	\$ (4,208,360)	\$ 2,366,899
Assets Depreciated:				
Buildings	\$ 4,264,152	\$ 12,858	\$ -	\$ 4,277,010
Improvements Other Than Buildings	44,997,439	5,701,049	-	50,698,488
Machinery & Equipment	2,781,218	1,544,458	-	4,325,676
Total Assets Depreciated:	\$ 52,042,809	\$ 7,258,365	\$ -	\$ 59,301,174
Less Accumulated Depreciation:				
Buildings	\$ (2,673,482)	\$ (121,959)	\$ -	\$ (2,795,441)
Improvements Other Than Buildings	(16,696,270)	(1,404,544)	-	(18,100,814)
Machinery & Equipment Depreciation	(1,626,894)	(317,372)	-	(1,944,266)
Total Accumulated Depreciation:	\$ (20,996,646)	\$ (1,843,875)	\$ -	\$ (22,840,521)
Total Assets Depreciated (Net):	\$ 31,046,163	\$ 5,414,490	\$ -	\$ 36,460,653
Business Activities				
Total Capital Assets (Net):	\$ 36,591,870	\$ 6,444,042	\$ (4,208,360)	\$ 38,827,552

Amount posted in the accumulated depreciation account include retirement of assets sold or transferred, current period depreciation expense, and any prior period adjustments. Amount of depreciation expense charged to capital assets by function are as follows:

Business-type activities:	
Water	\$ 608,984
Sewer	867,008
Solid Waste	67,536
Storm Drain	91,237
Marina	209,108
Total depreciation expense - business-type activities	<u><u>\$ 1,843,873</u></u>

NOTE 7 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2 AND 3

Plan Description

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. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants 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 exercise an option to transfer their membership to Plan 3. PERS participants 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. This option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three 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 may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced 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 three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, 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 to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of- living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to but not yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Non-vested	52,575
Total	255,849

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six 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. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3 employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. 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, 2008, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%	8.31%	8.31%**
Employee	6.00%	5.45%	***

- * The employer rates include the employer administrative expense fee currently set at 0.16%.
- ** 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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	\$20,567.72	\$403,608.39	\$304,888.29
2007	\$19,598.89	\$306,796.94	\$255,062.44
2006	\$23,058.02	\$169,839.74	\$188,977.45
2005	\$26,390.91	\$103,091.24	\$158,153.02
2004	\$28,306.37	\$ 68,911.36	\$115,148.61

LAW ENFORCEMENT OFFICERS' & FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 & 2

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 17, 2003, being an exception.

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 for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit 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. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

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	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the

member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. 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 three percent annually.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the last actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	9,085
Terminated Plan Members Entitled to but not yet Receiving Benefits	633
Active Plan Members Vested	12,904
Active Plan Members Non-vested	3,708
Total	26,330

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2008, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.46%**
Employee	0.00%	8.83%
State	N/A	3.53%

*The employer rates include the employer administrative expense fee currently set at 0.16%.

**The employer rate for ports and universities is 8.99%.

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

	LEOFF Plan 1	LEOFF Plan 2
2008	\$ 288.55	\$350,492.30
2007	\$ 274.17	\$302,508.54
2006	\$ 275.34	\$287,451.72
2005	\$ 276.74	\$219,862.33
2004	\$ 294.75	\$175,705.76
2003	\$ 299.56	\$106,438.71

PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS) PLAN 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 Legislature and became effective July 1, 2006.

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

A *covered employer* is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections, Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; Washington state cities except Seattle, Tacoma and Spokane.

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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 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 three percent per year reduction for each year between the age at retirement and age 60 applies. 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 three percent annually.

There are 71 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	0
Terminated Plan Members Entitled to but not yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	2,755
Total	2,755

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS 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. All employers are required to contribute at the level established by the Legislature. 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, 2008 were as follows:

	PSERS Plan 2
Employer*	9.43%
Employee	6.57%

*The employer rate includes an employer administrative expense fee of 0.16%.

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

	PSERS Plan 2
2008	\$ 8,544.93
2007	\$ 7,900.23
2006	\$ 3,214.40

OTHER RETIREMENT SYSTEMS - VOLUNTEER FIRE FIGHTERS' RELIEF AND PENSION FUND

The Volunteer Fire Fighters' Relief and Pension Fund System is 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 member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of money by the Washington State Investment Board. However, members may elect to withdraw their contributions upon termination.

NOTE 8 - RISK MANAGEMENT

The City of Oak Harbor is a member of the Washington Cities Insurance Authority. Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed January 1, 1981 when cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services.

The pool allows members to jointly purchase insurance coverage, provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability and all other coverages are on an “occurrence basis”. The Pool maintains a self-insurance layer limit of \$3,000,000 per occurrence, with a reinsured excess layer limit of \$12,000,000 per occurrence. Coverage includes general liability, automobile liability, stop-gap coverage, errors or omissions liability, and employee benefits liability. Claims deductibles run in levels of \$1,000 for property, and \$1,000 for automobile physical damage.

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. Insurance coverage has been greater than claims and settlements for each of the last three years.

NOTE 9 - SHORT-TERM DEBT

The City has no outstanding anticipation notes (other than bond anticipation notes that are accounted for as long-term debt), interest-bearing (registered or revenue) warrants, or similar contractual debt in 2008 nor were any issued during the year.

NOTE 10 - LONG-TERM DEBT

Long-Term Debt

The City of Oak Harbor has issued general obligation and revenue bonds to finance the purchase of property, the expansion of the City’s Police department building, and the construction of a new Fire Station Facility. Bonded indebtedness has also been entered into in prior years to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are repaid by income received from proprietary fund earnings. 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.

General obligation debt currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
1996 GO Refunding of 1987 & 1991 GO Bonds	2010	5.15%-5.85%	\$2,680,000	\$460,000
2008 OAK0361-1-1 LOCAL Bond	2012	3.42%	\$192,000	\$169,210

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
2009	\$266,313	\$32,197	-	-
2010	287,912	17,839	-	-
2011	49,565	2,146	-	-
2012	25,420	435	-	-
Total	\$629,210	\$52,617	-	-

The revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
1996 Water & Sanitary Sewer Revenue Refunding Bonds	2011	5.20% - 5.75%	\$3,495,000	\$1,085,000
2004 Water & Sewer Revenue Bonds	2024	4.55%	\$2,865,000	\$2,410,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31,	Principal	Interest
2009	455,000	161,638
2010	480,000	138,185
2011	500,000	112,970
2012	125,000	86,530
2013	130,000	82,155
2014-2018	725,000	332,745
2019-2023	880,000	168,472
2024-2026	200,000	9,100
Total	\$3,495,000	\$1,091,795

Balances due to other governments currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
PW-03-691-PRE-127 Public Works Trust Fund Loan	2009	0.50%	\$143,000	\$28,647
PW-05-691-PRE-106 Public Works Trust Fund Loan	2010	0.50%	\$280,500	\$9,121
PW-05-691-042 Public Works Trust Fund Loan	2025	0.50%	\$834,700	\$390,680
PW-05-691-031 Public Works Trust Fund Loan	2026	0.50%	\$2,694,500	\$510,537

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

Year Ending December 31,	Principal	Interest
2009	84,552	4,695
2010	55,904	4,272
2011	51,344	3,993
2012	51,344	3,736
2013	51,344	3,479
2014-2018	256,722	13,545
2019-2023	256,723	7,127
2024-2026	131,052	1,196
Total	\$938,985	\$42,043

In proprietary funds, unamortized debt issue costs are recorded as deferred charges 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. Restricted assets in proprietary funds contain \$953,353 in reserves as required by bond indentures.

Refunded Debt

The City of Oak Harbor issued a General Obligation refunding bond in 1996. Proceeds of the issue were used to perform an advance refunding of \$680,000 of the City's 1987 Unlimited Tax General Obligation Bonds; to perform an advance refunding of \$1,790,000 of the City's 1991 Unlimited Tax General Obligation Bonds; and to pay the costs of issuance of the bonds.

NOTE 11 - LEASES AND CONTRACT OBLIGATIONS

Operating Leases

The City of Oak Harbor leases office equipment with Xerox under non-cancelable operating leases. Total cost for such leases was \$54,508 for the year ending December 31, 2008. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2009	\$32,276
2010	30,040
2011	12,255
Total	\$74,571

Capital Leases

The City has no capital lease agreements and did not enter into any capital lease agreements during 2008.

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 as subsequently been extended for 6 addition years. 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 12-year 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 12-year period, November 6, 2013, 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 Activities
Respite Modular	\$ 138,572
Less Rent Expense	\$ 138,572
Total	\$ -

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2008, the following changes occurred in long-term liabilities (inclusive of both portions due within one year and due in more than one year):

	Balance 1/1/2008	Additions	Reductions	Balance 12/31/2008	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation	\$ 678,300	\$ 192,000	\$ (241,090)	\$ 629,210	\$ 266,313
Less deferred amounts:					
For issuance discounts on refunding	-	-	-	-	-
Total bonds payable:	678,300	192,000	(241,090)	629,210	266,313
Accrued Wages, Taxes & Benefits	-	-	-	-	-
Compensated absences & LT Liabilities	1,009,704	202,753	-	1,212,457	435,666
Government Activity Long-term Liabilities:	\$ 1,688,004	\$ 394,753	\$ (241,090)	\$ 1,841,667	\$ 701,979
Business-type Activities:					
Bonds payable:					
General obligation bonds					
Revenue bonds	\$ 3,925,000	\$ -	\$ (430,000)	\$ 3,495,000	\$ 455,000
Less deferred amounts:					
For issuance discounts	(832)	-	189	(643)	-
Total bonds payable:	3,924,168	-	(429,811)	3,494,357	455,000
Due to other governments-PWTF Loans	1,023,537		(84,552)	938,985	84,552
Accrued Wages, Taxes & Benefits	-	-	-	-	-
Payable from Restricted Assets (Landfill Closure)	70,157	-	-	70,157	-
Compensated absences & LT Liabilities	145,974	29,025	-	174,999	69,999
Business-type Activity Long Term Liabilities:	\$ 5,163,836	\$ 29,025	\$ (514,363)	\$ 4,678,498	\$ 609,551

Typically internal Service funds predominantly serve the governmental funds, however, the City of Oak Harbor's four Internal Service funds, Equipment Repair, Replacement, Technology and City Shop Facility, serve both governmental and the five enterprise funds. As reported in the Government-Wide Financial Statements, the internal service fund assets and liability balances are included in the governmental statement of net assets. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, there were no internal service funds bonds, notes and loans payable outstanding. However, \$107,838 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 - 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 No.10 (Long-Term Debt), the City of Oak Harbor is contingently liable for repayment of refunded debt.

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

NOTE 14 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$16,377,592 of restricted net assets, of which \$16,377,592 is restricted by enabling legislation.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund Balances

The principal purpose of interfund balance at December 31, 2008 is outstanding interfund charges for the allocation of shared facility costs at the Public Works facility. Rental of facility space and utility costs are allocated to the various tenants of the facility based on square footage utilized by each respective fund. Interfund balances at December 31, 2008 were as follows:

		Due From									
		General Fund	All Others	Water Reserve Fund	Sewer Reserve Fund	Solid Waste	Storm Drain Fund	Marina Fund	Equipment Rental Fund	Shop Facility Fund	Total
Due To	General Fund	\$0	\$2,638	\$9,497	\$13,646	\$4,106	\$20,758	\$7,578	\$1,022	\$1,192	\$60,437
	All Others	12,931	0	0	0	0	0	0	0	0	12,931
	Total	\$12,931	\$2,638	\$9,497	\$13,646	\$4,106	\$20,758	\$7,578	\$1,022	\$1,192	\$73,368

Interfund Transfers

The primary purpose of interfund transfers during the year pertain to interfund reimbursements to the Current Expense Fund #001 from other operating funds for legal, financial, and administration services. In addition, the Current Expense Fund subsidizes the Street Fund #101 for assistance in improving critical road surfaces in the City. Finally, the Current Expense Fund #001 transfers monies to the debt service fund responsible for the payments on the City's 1996 UTGO Refunding Bond. Interfund transfers at December 31, 2008 were as follows:

		Transfer From							
		General Fund	All Other Funds	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste Fund	Storm Drain and Reserve Fund	Equipment Rental Fund	Total
Transfer To	General Fund	\$0	\$256,861	\$465,893	\$449,945	\$196,072	\$267,579	\$33,018	\$1,669,368
	All Other Funds	630,952	275,687	10,000	10,000	0	0	0	\$926,639
	Water and Water Reserve Fund	0	0	423,928	0	0	0	0	\$423,928
	Storm Drain and Reserve Fund	0	0	0	0	0	25,000	0	\$25,000
	Shop Facility Fund	43,315	77,695	77,695	42,692	43,938	43,315	43,315	\$371,965
	Total	\$674,267	\$610,243	\$977,516	\$502,637	\$240,010	\$335,894	\$76,333	\$3,416,899

Interfund Loan Activity

There were no interfund loans during 2008.

NOTE 16 – RECEIVABLE BALANCES

Major Receivables

Major receivables of the City's governmental and enterprise funds come from the State, Island County, and local taxpayers. Total Receivables coincide with the following balance sheet line items: "Due from Other Governments", "Notes Receivable", "Taxes Receivable", and "Accounts Receivable".

Receivables at December 31, 2008 were as follows:

Receivables:	General	All Other Funds	Water	Sewer	Solid Waste	Storm Drain	Marina	Total
Taxes	\$ 87,055							\$ 87,055
Municipal Court	1,591,820							1,591,820
Accounts	200	414	546,932	593,301	424,826	187,486	29,075	1,782,234
Due from other Governments	16,545	875,998					7,002	899,545
Gross Receivables	\$ 1,695,620	\$ 876,412	\$ 546,932	\$ 593,301	\$ 424,826	\$ 187,486	\$ 36,077	\$ 4,360,654
Less: Allowance for Uncollectible	(1,346,680)							(1,346,680)
Net Total Receivables	\$ 348,940	\$ 876,412	\$ 546,932	\$ 593,301	\$ 424,826	\$ 187,486	\$ 36,077	\$ 3,013,974

Total governmental activities receivables were \$1,225,351 and business-type activities receivables were \$1,788,622.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Total governmental activities deferred revenue at December 31, 2008 was \$105,995 and business-type activities deferred revenue was \$17,179.

NOTE 17 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFIT

OTHER POSTEMPLOYMENT 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 current has five participants in the LEOFF 1 system consisting of two actively employed and tree 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 other post employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 56.22 was assumed for all active members for the purpose of determining the actuarial liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in September 30, 2006 actuarial valuation issued by the Office of State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Cost Credit. Their assumptions are individually and collectively reasonable for the purposes of this valuation.

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 thirty years as of January 1, 2008. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation of \$123,289 is included as a non-current liability on the Statement of Net Assets.

OTHER POST EMPLOYMENT BENEFITS OBLIGATION

YEAR ENDING 12/31/2008

Determination of Annual Required Contribution:

Normal Cost at year end	\$20,563
Amortization of UAAL	149,029
Annual Required Contribution (ARC)	<u>\$169,592</u>

Determination of Net OPEB Obligation:

Annual Required Contribution	\$169,592
Interest prior year Net OPEB Obligation	0
Adjustments to ARC	0
Annual OPEB Cost	<u>169,592</u>
Contributions	<u>(46,303)</u>
Increase in Net OPEB Obligations	<u>\$123,289</u>
Net OPEB Obligation - beginning of year	\$0
Net OPEB Obligation - end of year	<u>\$123,289</u>

Funded Status and Funding Progress

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2008 was as follows:

Fiscal Year End	Annual OPEB Cost	Contribution as A Percentage of OPEB	Net OPEB Obligation
12/31/2008	\$169,592	27.3026%	\$123,289

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$1,600,503 and the actuarial value of the assets was \$0 resulting in a UAAL of \$1,600,503. 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 presents 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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. In the January 1, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included a 5.50% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits. A medical inflation rate of 9%, graded to 5% over eight years was used along with a long term care inflation rate of 4.5%. The UAAL is being amortized over a thirty year period on a closed basis at the assumed discount rate.

**REQUIRED SUPPLEMENTARY INFORMATION
LEOFF 1 RETIREE MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS**

Fiscal Year End	Actuarial Value of Assets	Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	\$0	\$1,600,503	\$0	\$181,843	880.16%

NOTE 18 – CLOSURE AND POSTCLOSURE CARE COST

The City landfill ceased to receive solid waste as of 1980. From 1980 to present, the City Engineering Department has conducted extensive monitoring of ground water and gas expulsion. The City has prepared a landfill closure plan, conducted Phase I during 1993, and successive Phases implemented throughout 2003. In compliance with GASB Statement 18, the City of Oak Harbor has identified its remaining landfill closure liability to be approximately \$70,157 (the total estimated liability of \$800,000 less accumulated closure costs of \$729,843). This represents an estimate of the expected liability. Inflation, changes in technology, and closure regulations may affect this estimate.

NOTE 19 - OTHER DISCLOSURES

SUBSEQUENT EVENTS

In 1987, the City entered into a 50-year license agreement with the U.S. Navy to utilize certain sanitary sewer treatment facilities located on Navy property. During 2002, the Department of Defense entered in negotiations with the City of Oak Harbor to privatize the treatment of its sewer system aboard the Whidbey Island Naval Air Station. Discussion is still on-going in 2009 regarding sewage treatment options for military infrastructure.

CHANGE IN ACCOUNTING ESTIMATE

During 2008, the City changed the percentage used in the calculation of the allowance for uncollectible accounts for municipal court accounts receivables. Previously, the City had utilized a 50% factor in estimating uncollectible balances. Using a three year historical average of collections, the City has re-determined that a factor of 84.6% is a better measure of uncollectible accounts. Accordingly, the City has recorded an adjustment of \$530,460 representing write-down of municipal court accounts receivables to reflect this change in estimate.

IMPLEMENTATION OF GASB #45 – Other Post Employment Benefit Obligation (OPEB)

During 2008, the City implemented Government Accounting Standards Board (GASB) Pronouncement #45. GASB #45 requires that entities providing post employment benefits to retirees and record the annual change in the OPEB obligation for the year, the amount actually contributed to the post retirement benefit plan, and changes in the City's net long-term OPEB liability. These amounts are reflected on the entity-wide Statement of Net Assets and Statement of Activities. For further information about this topic, please refer to Note No. 17.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
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