



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Oak Harbor

Island County

For the period January 1, 2015 through December 31, 2015

Published September 29, 2016

Report No. 1017607





Washington State Auditor's Office

September 29, 2016

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Oak Harbor's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Oak Harbor
Island County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Oak Harbor are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Oak Harbor
Island County
January 1, 2015 through December 31, 2015**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, Island County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 21, 2016. As discussed in Note 18 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Oak Harbor
Island County
January 1, 2015 through December 31, 2015**

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Oak Harbor, Island County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 21, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Oak Harbor Island County January 1, 2015 through December 31, 2015

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, Island County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 18 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 32, pension plan information on pages 80 through 84 and information on postemployment benefits other than pensions on page 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

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

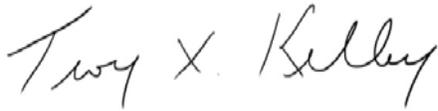
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 21, 2016

FINANCIAL SECTION

**City of Oak Harbor
Island County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Balance Sheet to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
– 2015

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to
the Statement of Activities – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
– General Fund– 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2015

Statement of Cash Flows – Proprietary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability PERS 1 – 2015

Schedule of Proportionate Share of Net Pension Liability PERS 2/3 – 2015

Schedule of Proportionate Share of Net Pension Liability PSERS 2/3 – 2015

Schedule of Proportionate Share of Net Pension Asset LEOFF 1 – 2015

Schedule of Proportionate Share of Net Pension Asset LEOFF 2 – 2015

Schedule of Proportionate Share of Net Pension Asset VFFRPF – 2015

Schedule of Employer Contribution PERS 1 – 2015

Schedule of Employer Contribution PERS 2/3 – 2015

Schedule of Employer Contribution PSERS 2 – 2015

Schedule of Employer Contribution LEOFF 1 – 2015
Schedule of Employer Contribution LEOFF 2 – 2015
Schedule of Employer Contribution VFFRPF – 2015
OPEB Schedule of Funding Progress LEOFF 1 – 2015
OPEB Schedule of Employer Contributions LEOFF 1 – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the City of Oak Harbor's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

This MD&A, combined with the Financial Statements and the Notes to the Financial Statements, represents the complete 2015 financial activities for the City of Oak Harbor. These are all intended to help the reader understand the City's significant financial issues. This MD&A provides an overview of the City's financial records. The data in this financial report also identifies any material deviations from the financial plan and the adopted annual budget. Finally, the intent of the MD&A and other financial information is to isolate and identify individual fund issues or concerns.

FINANCIAL INFORMATION

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

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

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

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

FINANCIAL HIGHLIGHTS

- The City's overall financial conditioned improved during 2015, as compared to 2014.
- City of Oak Harbor assets exceeded its liabilities at the close of the 2015 fiscal year by \$129.43 million (net position). Of this amount, \$52.35 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- Reported net position increased \$5.36 million. The overall net position of governmental activities increased \$1.83 million, or 3.60%, during 2015. Net position of business-type activities increased \$3.53 million, or 4.82%, during 2015.

- Total liabilities and deferred inflows increased by \$15.94 million or 100.90%, primarily due to \$10 million Bond Anticipation Note (BAN).

- Overall, the book value of capital assets increased by \$5.06 million, or 5.89%. Total capital assets from governmental activities decreased \$747,890 or -2.34%. This net decrease is primarily due to depreciation. Capital assets of business-type activities increased \$5.81 million or 10.75%. This net increase is due to the construction of the wastewater treatment plant. Additional information on the City's capital assets can be found in Note 5 of this report.

- At the close of the 2015, the City's governmental funds reported combined ending fund balances of \$16.76 million. Approximately 61.19% of this total amount, or \$10.25 million, is available for spending at the government's discretion (committed, assigned, and unassigned fund balances). 47.51% or \$7.96 million of the ending fund balances are recorded in the City's Special Revenue and Capital Project funds.

- At the end of the current fiscal year, the ending fund balance for the General Fund was \$8.80 million. Of this amount, 99.80%, or \$8.78 million, is available for spending at the government's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The graphic representation below illustrates the required components of the City's annual financial report and how the required parts are arranged and relate to one another. This illustration helps explain the City's financial presentation in 2015. This graphic representation should be used in conjunction with the following explanations to help guide the reader in understanding the financial condition of the City of Oak Harbor.



BASIC FINANCIAL STATEMENTS

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

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

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

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

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are often set up in accordance with special regulations, restrictions, or limitations. The City of Oak Harbor, like other state and local governments, uses

fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The annual financial report includes individual fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type. All of the City of Oak Harbor's funds can be divided into two categories: twenty-one individual governmental funds and eight proprietary funds. The City of Oak Harbor does not utilize fiduciary funds.

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

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

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

Governmental Funds:

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

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

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

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

Proprietary Funds

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Statement of Net Position can serve as a useful indicator of the City's financial position. The City of Oak Harbor's net position at December 31, 2015, totals \$129.43 million. Following is a condensed version of the government-wide statement of net position comparing fiscal year 2015 to 2014.

**City of Oak Harbor
Net Position
December 31, 2014 and 2015**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$28,534,054	\$26,621,774	\$40,741,110	\$26,910,312	\$ 69,275,164	\$ 53,532,087
Capital assets(net)	31,202,467	31,950,357	59,846,416	54,035,710	91,048,883	85,986,067
Total assets	59,736,521	58,572,132	100,587,526	80,946,022	160,324,047	139,518,154
Deferred outflows of resources	683,845	273,517	157,033	76,190	840,877	349,708
Total assets and deferred outflows of resources	60,420,365	58,845,649	100,744,559	81,022,212	161,164,924	139,867,861
Current and other liabilities	741,765	635,672	11,750,183	1,127,688	12,491,949	1,763,360
Long-term liabilities	5,762,770	5,061,432	12,105,726	6,255,457	17,868,496	11,316,890
Total liabilities	6,504,536	5,697,104	23,855,909	7,383,145	30,360,445	13,080,250
Deferred inflows of resources	1,124,243	2,189,664	250,695	526,705	1,374,937	2,716,369
Total Liability and deferred inflows of resources	7,628,778	7,886,768	24,106,604	7,909,850	31,735,382	15,796,619

Net Position

Net investment in capital assets	31,202,467	31,950,357	39,035,193	48,818,861	70,237,660	80,769,218
Restricted	6,503,615	5,935,259	338,928	552,051	6,842,542	6,487,310
Unrestricted	15,085,506	13,073,264	37,263,835	23,741,450	52,349,340	36,814,714
Total net position	\$52,791,587	\$50,958,881	\$76,637,955	\$73,112,362	\$129,429,542	\$124,071,243

Note: Totals may not foot due to rounding.

As of the end of 2015, the largest component of the City's total net position at \$70.24 million, or 54.27%, is its investment in capital assets (e.g., land, buildings, streets, parks, water/sewer infrastructure, and machinery and equipment) less any related outstanding debt issued to acquire those assets. These capital assets are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. Approximately \$6.84 million, or 5.29%, of the City's total net position is subject to legal restrictions.

The net position of governmental activities increased by \$1.83 million, a net change of 3.60%. This change is attributable to the increase in cash and cash equivalents. The net position of business-type activities increased \$3.53 million, a change of 4.82%. The increase was primarily in cash and cash equivalents, a net effect of the construction of the Clean Water Facility.

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

The Statement of Activities can serve as a useful indicator of the results of operations for the City. The following table is a condensed version of the Statement of Activities, illustrating the increases or decreases in net position of the City resulting from its operating activities. The table shows the revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type activities for 2015 and 2014:

**City of Oak Harbor
Changes in Net Position
December 31, 2015**

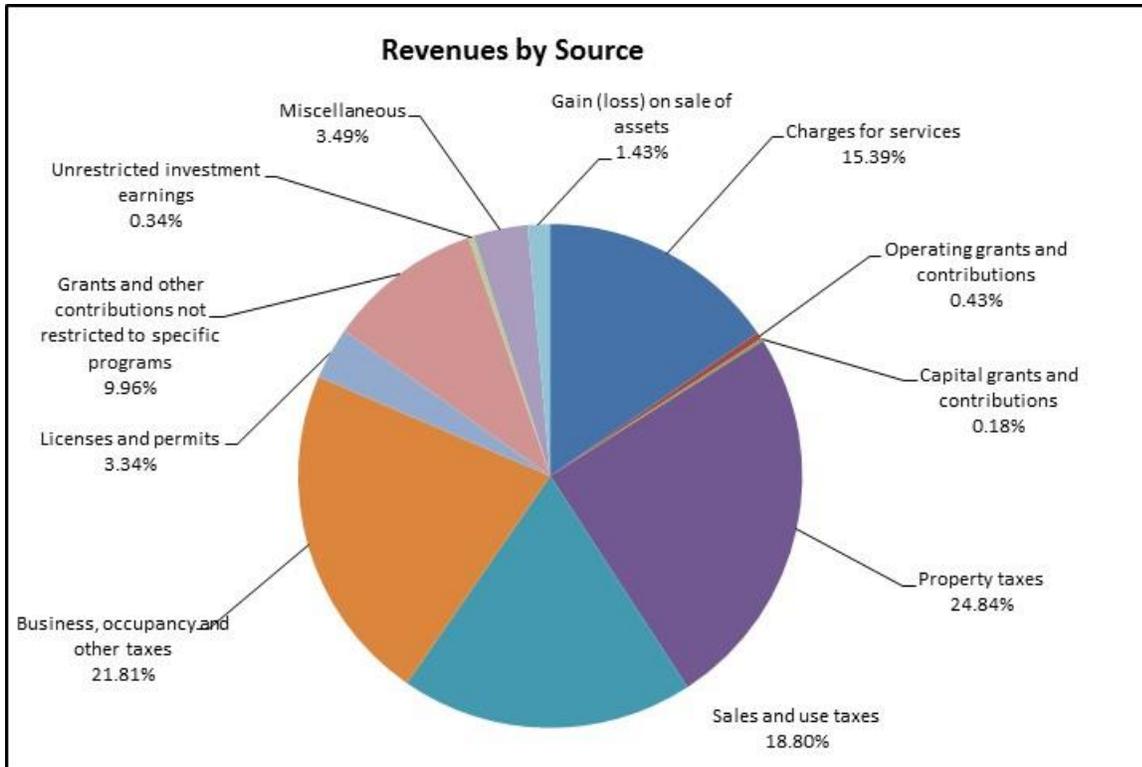
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program revenues:						
Charges for services	\$ 2,518,456	\$ 2,167,964	\$18,808,256	\$17,676,856	\$ 21,326,711	\$ 19,844,820
Operating grants and contributions	70,524	22,770	49,621	54,744	120,145	77,513
Capital grants and contributions	29,000	-	387,376	-	416,376	-
General revenues:						
Property taxes	4,066,439	3,919,076	-	-	4,066,439	3,919,076
Sales and use taxes	3,076,784	2,803,051	-	-	3,076,784	2,803,051
Other taxes	3,570,116	3,425,161	-	-	3,570,116	3,425,161
Licenses and permits	546,036	566,270	-	-	546,036	566,270
Unrestricted grants and contributions	1,630,772	1,458,745	-	-	1,630,772	1,458,745
Investment earnings	56,374	66,612	63,140	90,335	119,513	156,946
Miscellaneous	570,701	531,359	142,297	342,476	712,999	873,835
Gain (loss) on sale of assets	233,955	(3,695)	5,312	-	239,267	(3,695)
Total revenues	<u>16,369,156</u>	<u>14,957,313</u>	<u>19,456,002</u>	<u>18,164,410</u>	<u>35,825,158</u>	<u>33,121,723</u>
EXPENSES						
Governmental activities:						
General government	1,563,155	2,166,059	-	-	1,563,155	2,166,059
Judicial	354,888	369,051	-	-	354,888	369,051
Public safety	7,634,326	6,928,731	-	-	7,634,326	6,928,731
Transportation	1,909,345	1,994,656	-	-	1,909,345	1,994,656
Natural and economic environment	1,355,450	1,160,855	-	-	1,355,450	1,160,855
Social services	322,629	415,041	-	-	322,629	415,041
Culture and recreation	1,396,657	1,584,099	-	-	1,396,657	1,584,099
Business-Type activities:						
Water and Water Reserve Fund	-	-	4,539,774	4,498,660	4,539,774	4,498,660
Sewer and Sewer Reserve Fund	-	-	5,551,928	4,285,839	5,551,928	4,285,839
Solid Waste and Solid Waste Reserve Fund	-	-	3,312,111	3,193,344	3,312,111	3,193,344
Storm Drain and Storm Drain Reserve Fund	-	-	1,156,455	1,444,568	1,156,455	1,444,568
Marina and Marina Reserve Fund	-	-	1,370,140	1,302,392	1,370,140	1,302,392
Total expenses	<u>14,536,450</u>	<u>14,618,492</u>	<u>15,930,408</u>	<u>14,724,803</u>	<u>30,466,858</u>	<u>29,343,295</u>
Change in net position before special items and transfers	<u>1,832,706</u>	<u>338,821</u>	<u>3,525,594</u>	<u>3,439,607</u>	<u>5,358,300</u>	<u>3,778,428</u>
Change in net position	1,832,706	338,821	3,525,594	3,439,607	5,358,300	3,778,428
Prior period adjustment		(2,176,392)		(1,943,940)		(4,120,331)
Net position - beginning	50,958,881	52,796,451	73,112,362	71,616,694	124,071,243	124,413,146
Net position - ending	<u>\$52,791,587</u>	<u>\$50,958,881</u>	<u>\$76,637,955</u>	<u>\$73,112,362</u>	<u>\$129,429,542</u>	<u>\$124,071,243</u>

Note: Totals may not foot due to rounding.

In governmental activities, total revenues for 2015 show a 1.41 million increase when compared to revenues of the previous year due to increase in charges for services. In business-type activities, revenues have increased. The City is currently increasing sewer and water utility rates for the construction of a new wastewater treatment plant.

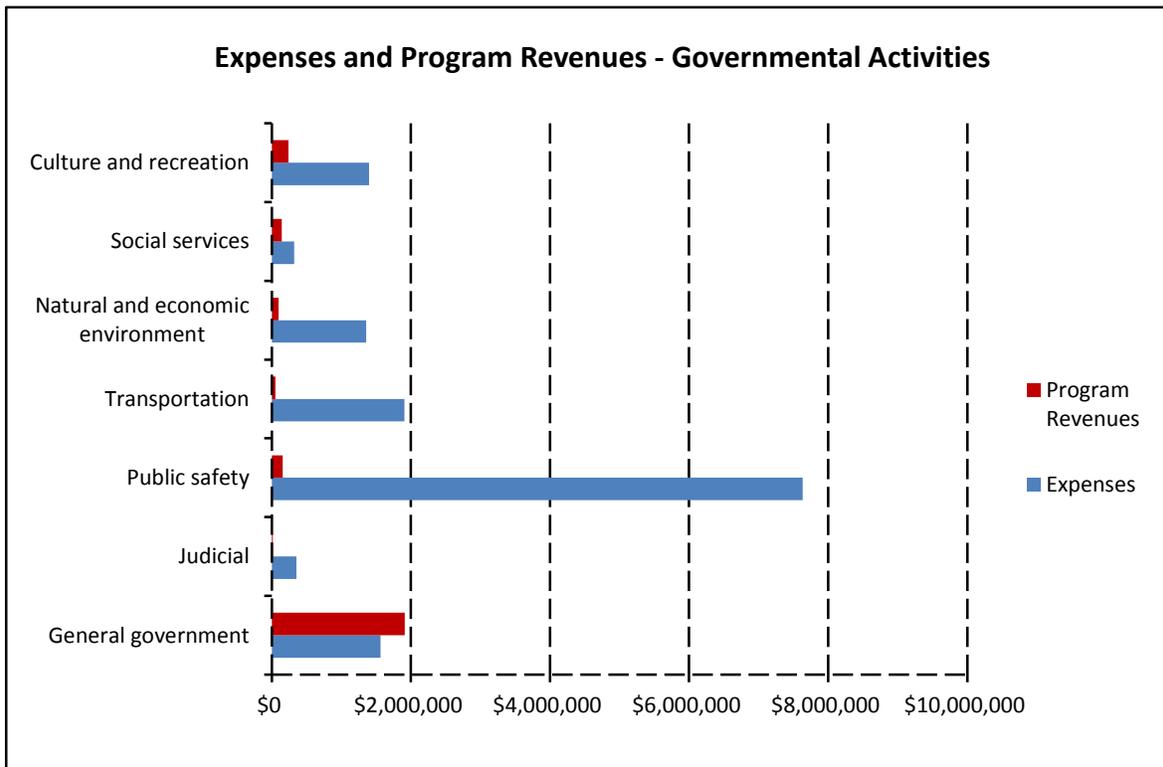
GOVERNMENTAL ACTIVITIES ANALYSIS

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



In regards to governmental revenue types, taxes account for the largest revenue category, generating \$10.71 million, or 65.45%, of the \$16.37 million total governmental revenues. The majority of tax revenue is received in the General Fund accounting for \$9.66 million, or 70.27%, of General Fund revenues. Because of this high percentage, this General Fund category receives the majority of attention during the City's budgeting process. Included in this category are sales, property, utility, criminal justice, and gambling taxes.

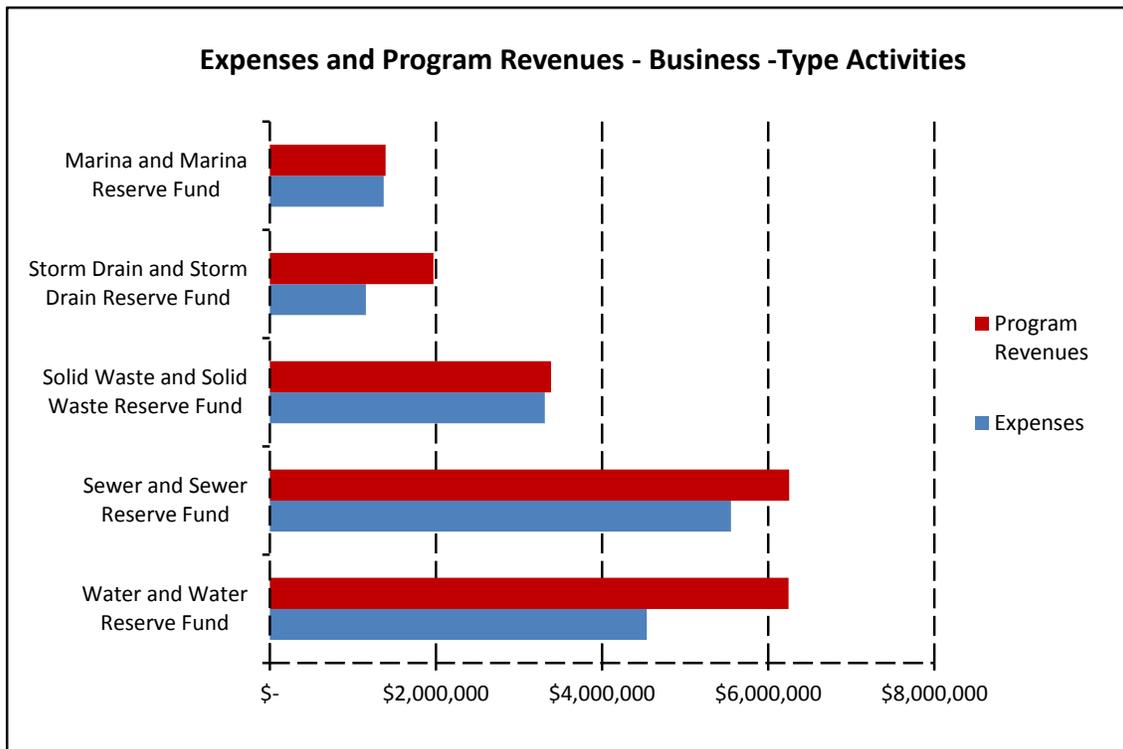
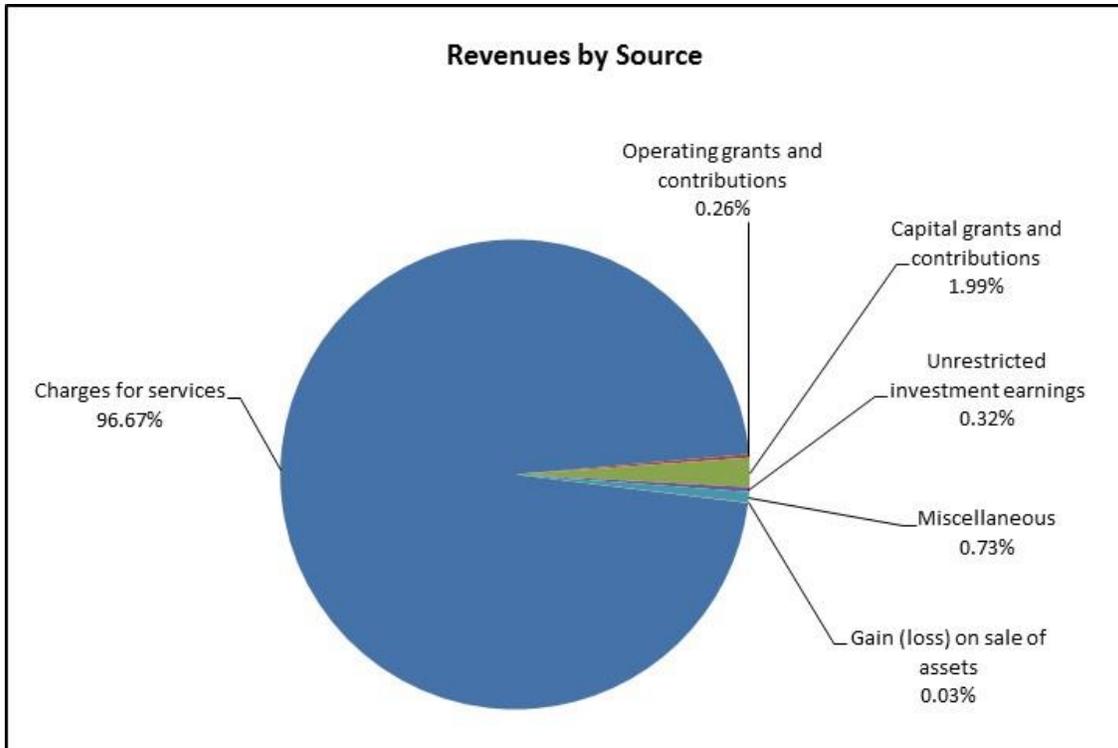
Expenses: The following comparative graph illustrates governmental program revenues to program expenses, net of transfers:



General government services encompass a variety of services including executive, financial, legal, judicial, development services, parks, personnel, building maintenance, and audit/risk management. Security of persons and property services are provided by the City's Police Department who works to provide professional law enforcement services to keep our citizens and their property safe. Special emphasis is placed on community-oriented programs that will prevent crime and forge a partnership between the officers and the citizens they serve. Utility and environment services create a satisfactory living environment for the City's residents. Inspection of private construction projects and coordinating the design of city projects are two examples of physical environment activities. Transportation services provide maintenance of the City's streets, sidewalks, paths and traffic control signs/signals. Economic environment services include land use planning, zoning and community development. Health and human services include the City's support for the county's substance abuse program. The City is required by State law to commit 2% of our revenues from liquor profits and liquor tax to this program. The City has a contract with the Island County Health Department, which uses a formula based on population and assessed value to determine the City's level of subsidy.

BUSINESS-TYPE ACTIVITIES ANALYSIS

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



Enterprise Funds

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

- **Water and Water Reserve Fund:** The City's water utility is solely supported by its customers, and revenue is generally derived from three sources: 1) monthly service charges, 2) system connection fees, and 3) miscellaneous revenues. The majority of revenue comes from monthly service charges. It is anticipated that Water and Water Reserve Fund revenues will increase in future years due to the moderate rate increases implemented in advance of a number of significant improvements to the City's water infrastructure, including the construction of the 4-million gallon water storage tank on the north side of the City and the City's portion of the costs of upgrading the Anacortes water treatment facility.

- **Sewer and Sewer Reserve Fund:** In 2010, a new rate structure was put into place incorporating steady rate increases over a five year period. This steady increase in sewer rates is implemented in advance of the City's considering the replacement of its sewage treatment facility currently located at Windjammer Park. Construction of the new facility is anticipated to begin within the next three years. The City's sewer utility is also solely supported by its users and revenue is generally derived from three sources: 1) monthly service charges, 2) system connection fees, and 3) miscellaneous revenues. The majority of revenue comes from monthly service charges.

- **Solid Waste and Solid Waste Reserve Fund:** The solid waste utility is supported by its users and revenue is generally derived from service charges for scheduled residential and commercial solid waste pickup. The City also receives fees for the collection of compostable green waste, and for regular dumpster garbage collection. The City's recycle program is included within the service charge fee structure. The majority of revenue comes from monthly service charges. There was no cost inflator for the rates in 2015 keeping the revenues fairly consistent with previous years, although total revenues for the Solid Waste fund have increased due to the addition of new customers due to the expiration of long-term franchise agreements from previous annexation agreements.

- **Storm Drain and Storm Drain Reserve Fund:** The City's storm drain utility is supported by its users and revenue is generally derived from monthly service charges. Rates are charged to residential and commercial customers by the area of equivalent residential units (ERU). The rate structure provides funding for many of the storm water projects identified in the City's Comprehensive Storm Water Management Plan. In 2010, a new rate structure was put into place incorporating steady rate increases over a five year period, and a reallocation of service costs between different classes of customers. This steady increase in storm drain rates is being implemented in advance of the several storm drain infrastructure to include replacement of the City's 42-inch outfall. The revenues for 2015 are slightly higher.

- **Marina and Marina Reserve Fund:** This fund is supported primarily through user fees charged to customers using the marina facility. Fees are charged for overnight transient rental of slips, longer term leases for boat owners mooring their vessels, and for the sale of fuel and other products to marina customers. The City completed the Marina Redevelopment Project which included the dredging of waterways to and around the marina, electrical system upgrades, and other dock enhancements. During 2011, the marina rate structure was increased to fund both the debt service incurred by the issuance of a \$2,570,000 Limited Tax General Obligation (LTGO) bond utilized to finance the extensive improvements, and to fund continued operations of the marina facility. Marina revenues increased slightly in 2015 but have been at or below historical averages due to the effect of the slower economy on the boating industry.

The City seeks to supplement business activities, as well as governmental activities, through the prudent application of third party funding sources in the form of grants wherever possible. During 2015, business activity program revenues exceeded expenditures because rates were set to accommodate future capital improvements for a fully functioning system. Recently all utilities either implemented or updated their

functional plans to evaluate future improvements and operating costs. Rates have been set to reflect these plans.

Internal Service Funds:

The City of Oak Harbor utilizes three internal service funds. These funds are used to account for the goods and services provided to other units of the City entity. Payment by the benefiting unit is intended to fund the costs of providing such service. The three funds that fall into this category are: Equipment Repair Fund, Equipment Replacement Fund, and the Shop Facility Fund.

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

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

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

MAJOR FUND ANALYSIS

The City, in accordance with GASB 34, performed the major fund calculation and determined that only the General Fund met the requirement to qualify as major fund. The remaining governmental funds are combined and reported in aggregate. These funds are accounted for using the modified accrual basis of accounting. As reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, total revenues equal \$16.36 million with total expenditures equaling \$15.32 million.

- **General Fund:** The General Fund accounts for the main operating revenues and expenditures of the City's governmental functions. Revenues and expenditures related to executive, judicial, finance, legal, public safety, building inspection and planning and park operations are some of the primary functions of the general government accounted for in General Fund. The majority of tax revenues are receipted into the General Fund supporting the governmental functions of the City. The fund balance for the General Fund has increased \$499,536, or 6.02%. This is primarily due to uptick in tax revenue. For several years, actual revenues received were consistently higher than actual expenditures which allowed the City to build its fund balance position. With the declining economy consistently following the national trend, current revenues are primarily at or slightly below projected figures. During 2015, most revenues stayed at approximately the same levels as 2014 with the exception of sales taxes and investment earnings. Expenditures remained fairly consistent in comparison to previous years.

• **Enterprise Funds:** The City elects to report its four utilities and marina as major funds. In previous years, the marina and storm drain utility have not always met the technical requirements needed to be reported as major funds. However, the City elects to treat both funds as major funds due to the public interest in these operations, and due to the desire to provide a consistent presentation of financial information from year to year. The funds are reported on a full-accrual basis - accounting for all assets and liabilities. Fund balances remained fairly consistent with the prior year. The City anticipates utility fund balances will slightly increase in future years as the City implements steady and consistent rate increases in anticipation of several long-term capital projects. The City anticipates that Marina revenues will remain at or slightly lower than the historical average due to a slowdown in the recreational boating industry.

BUDGETARY HIGHLIGHTS

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

Budgeted General Fund revenues and expenditures increased as the result of an amendment to adjust beginning and ending fund balances to actual resources on hand at January 1, 2015. Some adjustments were made between budgeted expenditure line items within departments of the General Fund, with none of these interdepartmental adjustments impacting total adopted fund appropriation.

CASH MANAGEMENT

Aggressive efforts to maximize interest earnings of temporary cash reserves have been as successful as the economy allows. The City manages cash accounts by the pooled cash management concept and plans investment maturities to coincide with cash needs. The pool concept provides for investing greater amounts of money at more favorable interest rates. The City has a Financial Management Policy with recommended levels of cash and reserves. These balances are regularly monitored to assure compliance with the requirements of the policy.

DEBT ADMINISTRATION

The City participates in various forms of debt at the end of 2015: general obligation debt, revenue debt, and debt issued by the Washington Public Works Trust Fund. In business-type activities, the City has one outstanding LTGO bond issue in the amount of \$2,040,000 being retired by revenues pledged from the Marina and Marina Reserve Fund, three Public Works Trust Fund Loans for a combined amount of \$1,479,163 which are being retired by revenues pledged from the Water and Water Reserve Fund and Storm Drain and Storm Drain Reserve Fund, which are being retired from revenues pledged from the City's Sewer and Sewer Reserve Fund.

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

1. The first limit is on the amount of general obligation debt that can be incurred without a vote of the people. For this type of debt, a city is limited to 1.5% of its assessed value (\$1,596,639,892), or \$23,949,598, less outstanding general obligation debt originated without a public vote of \$2,040,000 for a total of \$21,909,598.
2. The second statutory limit is the amount of general obligation debt a city may incur for general governmental purposes with a vote of the people. This limit is 2.5% of the assessed value. For 2015, the City's limit is \$39,915,997, less any amount issued as non-voted debt. At this time the City does not have any voted debt.

3. The third limit is also calculated as a percentage of assessed value. This statutory limit allows a City to incur general obligation debt of up to an additional 2.5% of its assessed value for bond issues approved by the voters for the purpose of utility improvements and an additional 2.5% for parks or open space development.

Additional information on the City's long-term debt can be found in Note 9 of this report.

CAPITAL EQUIPMENT AND UPGRADING CAPITAL FACILITIES

The City continues to provide for replacement of capital items of \$5,000 or more, such as motor vehicles and public works equipment, as well as other miscellaneous equipment through the utilization of the equipment replacement fund. These replacements are funded with transfers from participating funds to the Equipment Replacement Fund. The City's budget continues to primarily focus on operation and maintenance costs. Annually the City updates the City Improvement Plan (CIP) to prioritize and establish funding sources for capital outlay costs to maintain and upgrade the existing infrastructure. With revenue streams continually being challenged, the City has had the good fortune of securing grants for many of these transportation projects. The City continues to allocate funds for pavement. These funds have normally been incorporated into larger projects to complete the restoration and receive the biggest benefit for the dollars.

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

ECONOMIC FACTORS AND OAK HARBOR IN THE FUTURE

Economy Recovery

The local economy experienced a similar level of revenue deterioration that other communities felt, on a national level, as a result of the economic downturn beginning in 2008. From a local perspective, sales tax revenues, representing a significant revenue component and a barometer of the local economy, declined significantly through the early months of 2013. From mid-2013 through 2015, the City has experienced a slight upturn in sales tax revenue receipts – a fact which represents an improvement in spending and the economic condition of consumers in Oak Harbor. While this welcomed revenue improvement is encouraging, several of the businesses which contributed significantly to the City's sales tax generation base closed or moved away from the local community. Unfortunately, these businesses, primarily automobile dealerships, are not here to participate in any economic recovery. The City is taking a conservative approach in its budgetary estimates of the rapidity and amount of economic recovery. Accordingly, budgeted sales tax revenues are calculated using a 1% increase escalator index for both 2015 and 2016.

The City continues to experience a moderate demand for single family housing. There remain several undeveloped parcels within the City. Their eventual development will result in increased property tax receipts, however the sales tax receipts as a result of construction will begin to decrease as the inventory of available parcels of property becomes smaller. As always, the outcome will be determined on the general economy and improved consumer confidence.

Naval Air Station Whidbey Island (NASWI)

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

Changes in State Law

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

The State of Washington does not have a state personal income tax and therefore the state operates primarily using property, sales, utility, and motor vehicle fuel taxes. The City relies on sales, property and utility taxes and a limited array of permitted other taxes, fees, and state and federal grants to support governmental activities. For the business-type and certain governmental activities (permitting, recreation programs, etc.) the user pays a related fee or associated charge.

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

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

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

The City is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

Request for Financial Information

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

City of Oak Harbor
Statement of Net Position
December 31, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 17,402,856	\$ 23,975,684	\$ 41,378,540
Investments	7,721,413	14,375,227	22,096,640
Receivables (net)	305,729	1,948,841	2,254,570
Due from other governments	934,816	9,111	943,926
Inventories	15,225	11,543	26,768
Total current assets	<u>26,380,039</u>	<u>40,320,404</u>	<u>66,700,444</u>
Noncurrent assets:			
Restricted cash	979,222	420,706	1,399,927
Pension asset	1,174,793	-	1,174,793
Land	10,823,875	4,808,802	15,632,677
Construction in progress	480,702	11,352,597	11,833,299
Intangible assets	50,000	-	50,000
Buildings and systems	5,750,467	2,851,230	8,601,697
Improvements and infrastructure	11,407,832	39,615,187	51,023,019
Machinery and equipment	2,689,591	1,218,600	3,908,191
Total noncurrent assets	<u>33,356,482</u>	<u>60,267,122</u>	<u>93,623,604</u>
Total assets	<u>59,736,521</u>	<u>100,587,526</u>	<u>160,324,047</u>
Deferred Outflows of Resources			
Pension	683,845	157,033	840,877
Total deferred outflows of resources	<u>683,845</u>	<u>157,033</u>	<u>840,877</u>
Total assets and deferred outflows of resources	<u>60,420,365</u>	<u>100,744,559</u>	<u>161,164,924</u>
Liabilities			
Current liabilities:			
Accounts payable	391,979	1,269,032	1,661,011
Accrued interest payable	-	30,854	30,854
Other current liabilities	202,059	10,210,548	10,412,606
Compensated absences	147,728	24,821	172,548
Other long-term liabilities	-	109,929	109,929
Bonds payable, net	-	105,000	105,000
Total current liabilities	<u>741,765</u>	<u>11,750,183</u>	<u>12,491,949</u>
Noncurrent liabilities:			
Compensated absences	1,183,197	196,448	1,379,645
Other long-term liabilities	-	8,671,923	8,671,923
Bonds payable, net	-	1,924,371	1,924,371
OPEB obligation	938,344	-	938,344
Pension obligation	3,641,229	1,312,983	4,954,212
Total noncurrent liabilities	<u>5,762,770</u>	<u>12,105,726</u>	<u>17,868,496</u>
Total liabilities	<u>6,504,536</u>	<u>23,855,909</u>	<u>30,360,445</u>
Deferred Inflows of Resources			
Unearned revenue	155,357	-	155,357
Pension	968,886	250,695	1,219,580
Total deferred inflows of resources	<u>1,124,243</u>	<u>250,695</u>	<u>1,374,937</u>
Total liabilities and deferred inflows of resources	<u>7,628,778</u>	<u>24,106,604</u>	<u>31,735,382</u>
Net Position			
Net investment in capital assets	31,202,467	39,035,193	70,237,660
Restricted for:			
Capital projects	2,119,717	81,928	2,201,644
Culture and recreation	837,242	-	837,242
Debt service	-	257,000	257,000
Public safety	17,403	-	17,403
Transportation	3,529,253	-	3,529,253
Unrestricted	15,085,506	37,263,835	52,349,340
Total net position	<u>\$ 52,791,587</u>	<u>\$ 76,637,955</u>	<u>\$129,429,542</u>

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

City of Oak Harbor
Statement of Activities
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,563,155	\$ 1,912,060	\$ -	\$ -	\$ 348,905	\$ -	\$ 348,905
Judicial	354,888	17,270	-	-	(337,618)	-	(337,618)
Public safety	7,634,326	94,345	63,524	-	(7,476,457)	-	(7,476,457)
Transportation	1,909,345	21,520	-	29,000	(1,858,825)	-	(1,858,825)
Natural and economic environment	1,355,450	96,099	-	-	(1,259,351)	-	(1,259,351)
Social services	322,629	142,482	-	-	(180,147)	-	(180,147)
Culture and recreation	1,396,657	234,680	7,000	-	(1,154,977)	-	(1,154,977)
Total governmental activities	14,536,450	2,518,456	70,524	29,000	(11,918,470)	-	(11,918,470)
Business-type activities:							
Water and Water Reserve Fund	4,539,774	6,050,218	-	193,442	-	1,703,886	1,703,886
Sewer and Sewer Reserve Fund	5,551,928	6,116,742	11,722	123,472	-	700,007	700,007
Solid Waste and Solid Waste Reserve Fund	3,312,111	3,386,609	-	-	-	74,498	74,498
Storm Drain and Storm Drain Reserve Fund	1,156,455	1,879,234	20,650	70,462	-	813,891	813,891
Maina and Marina Reserve Fund	1,370,140	1,375,453	17,249	-	-	22,562	22,562
Total business-type activities	15,930,408	18,808,256	49,621	387,376	-	3,314,844	3,314,844
Total primary government	\$30,466,858	\$ 21,326,711	\$ 120,145	\$ 416,376	\$ (11,918,470)	\$ 3,314,844	\$ (8,603,626)
General revenues:							
Property taxes					4,066,439	-	4,066,439
Sales and use taxes					3,076,784	-	3,076,784
Business, occupancy and other taxes					3,570,116	-	3,570,116
Licenses and permits					546,036	-	546,036
Grants and other contributions not restricted to specific programs					1,630,772	-	1,630,772
Unrestricted investment earnings					56,374	63,140	119,513
Miscellaneous					570,701	142,297	712,999
Gain (loss) on sale of assets					233,955	5,312	239,267
Total general revenues, special items, and transfers					13,751,176	210,749	13,961,926
Change in net position					1,832,706	3,525,594	5,358,300
Net position - beginning					50,958,881	73,112,362	124,071,243
Net position - ending					\$ 52,791,587	\$ 76,637,955	\$ 129,429,542

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

City of Oak Harbor
Balance Sheet
Governmental Funds
December 31, 2015

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash & cash equivalents	\$ 5,011,988	\$ 7,045,770	\$ 12,057,758
Investments	3,965,098	-	3,965,098
Accounts receivables (net)	288,291	17,438	305,729
Due from other governments	7,327	-	7,327
Restricted cash	-	979,222	979,222
Total assets	<u>\$ 9,272,704</u>	<u>\$ 8,042,429</u>	<u>\$ 17,315,133</u>
Liabilities			
Accounts payable	\$ 154,038	\$ 46,415	\$ 200,453
Deposits	158,119	17,591	175,709
Retainage	26,349	-	26,349
Total liabilities	<u>338,506</u>	<u>64,006</u>	<u>402,512</u>
Deferred Inflows of Resources			
Unearned revenue	137,920	17,438	155,357
Total deferred inflow of resources	<u>137,920</u>	<u>17,438</u>	<u>155,357</u>
Total liabilities and deferred inflows of resources	<u>476,425</u>	<u>81,444</u>	<u>557,869</u>
Fund Balances (Deficits)			
Restricted	17,626	6,485,989	6,503,615
Committed	-	1,474,996	1,474,996
Assigned	3,538,091	-	3,538,091
Unassigned	5,240,562	-	5,240,562
Total fund balances (deficits)	<u>\$ 8,796,279</u>	<u>\$ 7,960,985</u>	<u>\$ 16,757,264</u>
Total liabilities and fund balances (deficits)	<u>\$ 9,272,704</u>	<u>\$ 8,042,429</u>	<u>\$ 17,315,133</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor
Reconciliation of Balance Sheet
To the Statement of Net Position
December 31, 2015**

Fund balances of governmental funds	\$16,757,264
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Amounts reported for governmental activities in the statement of net position are different because:

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

Historical cost of assets not being depreciated	11,225,295	
Historical cost of assets being depreciated	43,929,111	
Accumulated depreciation	<u>(29,403,308)</u>	
		25,751,098

Long-term assets and some deferred outflows are not available to pay for current period expenditures and therefore deferred:

Other long-term assets	927,489	
Pension asset	1,174,793	
Deferred outflows	<u>578,436</u>	
		2,680,718

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

Accounts payable	(132,411)	
Compensated absences	(1,114,967)	
Other post-employment benefit liabilities	(938,344)	
Pension obligations	(2,743,953)	
Deferred inflows	<u>(809,393)</u>	
		(5,739,068)

Internal service funds are used by management to charge the costs of fleet management, shop facilities and information systems to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.

13,341,574

Net position of governmental activities

\$52,791,587

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

Note: Totals may not foot due to rounding.

City of Oak Harbor
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 9,663,416	\$ 925,216	\$ 10,588,631
Licenses and permits	541,273	4,762	546,036
Intergovernmental	482,779	1,222,266	1,705,045
Charges for services	2,290,128	228,328	2,518,456
Fines and forfeits	124,391	-	124,391
Interest revenue	28,722	30,111	58,833
Miscellaneous	288,796	66,791	355,587
Total revenues	<u>13,419,505</u>	<u>2,477,474</u>	<u>15,896,978</u>
Expenditures			
Current:			
General government	2,660,676	-	2,660,676
Judicial	305,063	-	305,063
Public safety	7,533,030	-	7,533,030
Transportation	-	1,086,700	1,086,700
Natural and economic environment	1,094,896	287,006	1,381,902
Social services	7,460	359,073	366,534
Culture and recreation	1,408,895	5,173	1,414,067
Capital outlay:			
Capital outlay	86,438	311,295	397,733
Total expenditures	<u>13,096,457</u>	<u>2,049,248</u>	<u>15,145,704</u>
Excess (deficiency) of revenues over expenditures	<u>323,048</u>	<u>428,226</u>	<u>751,274</u>
Other Financing Sources (Uses)			
Transfers in	19,295	135,000	154,295
Transfers out	(155,000)	(19,295)	(174,295)
Gain (loss) on sale of fixed assets	312,194	898	313,092
Insurance recoveries	-	524	524
Total other financing sources (uses)	<u>176,489</u>	<u>117,127</u>	<u>293,616</u>
Net change in fund balances	499,536	545,353	1,044,890
Fund balances - beginning	8,296,742	7,415,632	15,712,375
Fund balances - ending	<u>\$ 8,796,279</u>	<u>\$ 7,960,985</u>	<u>\$ 16,757,264</u>

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

Note: Totals may not foot due to rounding.

City of Oak Harbor
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
For the Year Ended December 31, 2015

Net change in fund balances - total governmental funds		\$1,044,890
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Amounts reported for governmental activities in the statement of net position are different because:

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

Capital outlay		392,261
Depreciation		<u>(1,296,447)</u>
		(904,186)

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

Contributions of capital assets		271,756
Reduction in capital assets		<u>(73,423)</u>
		198,333

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

Change in current assets		206,326
Change in pension assets		(400,247)
Change in deferred outflows		<u>353,519</u>
		159,597

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

Change in accounts payable		(46,946)
Change in compensated absences		(29,057)
Change in other post-employment benefits		(140,815)
Change in pension obligations		(421,669)
Change in deferred inflows		<u>897,399</u>
		258,913

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

1,075,159

Change in net position of governmental activities

\$1,832,706

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

Note: Totals may not foot due to rounding.

City of Oak Harbor

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$9,634,200	\$9,634,200	\$9,663,416	\$ 29,216
Licenses and permits	805,390	805,390	541,273	(264,117)
Intergovernmental	282,450	282,450	482,779	200,329
Charges for services	2,630,520	2,630,520	2,290,128	(340,392)
Fines and forfeits	134,000	134,000	124,391	(9,609)
Interest revenue	18,850	18,850	28,722	9,872
Miscellaneous	225,200	225,200	288,796	63,596
Total revenues	<u>13,730,610</u>	<u>13,730,610</u>	<u>13,419,505</u>	<u>(311,105)</u>
Expenditures				
Current:				
General government	2,683,895	2,878,495	2,660,676	217,819
Judicial	459,575	459,575	305,063	154,512
Public safety	7,078,123	7,256,973	7,533,030	(276,057)
Natural and economic environment	1,182,788	1,210,288	1,094,896	115,392
Social services	3,000	3,000	7,460	(4,460)
Culture and recreation	1,497,334	1,528,934	1,408,895	120,039
Capital outlay:				
Capital outlay	70,501	102,501	86,438	16,063
Total expenditures	<u>12,975,216</u>	<u>13,439,766</u>	<u>13,096,457</u>	<u>343,309</u>
Excess (deficiency) of revenues over expenditures	<u>755,394</u>	<u>290,844</u>	<u>323,048</u>	<u>32,204</u>
Other Financing Sources (Uses)				
Transfers in	798,978	768,478	19,295	(749,183)
Transfers out	(868,478)	(868,478)	(155,000)	713,478
Gain (loss) on sale of fixed assets	-	-	312,194	312,194
Total other financing sources (uses)	<u>(69,500)</u>	<u>(100,000)</u>	<u>176,489</u>	<u>276,489</u>
Net change in fund balances	685,894	190,844	499,536	308,692
Fund balances - beginning	8,296,742	8,296,742	8,296,742	-
Fund balances - ending	<u>\$8,982,636</u>	<u>\$8,487,586</u>	<u>\$8,796,279</u>	<u>\$ 308,692</u>

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

Note: Totals may not foot due to rounding.

City of Oak Harbor
Statement of Net Position
Proprietary Funds
December 31, 2015

	Business-type Activities					Governmental Activities	
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste and Solid Waste Reserve Fund	Storm Drain and Storm Drain Reserve Fund	Marina and Marina Reserve Fund	Total Enterprise Funds	Internal Service Funds
Assets							
Current assets:							
Cash & cash equivalents	\$ 5,433,108	\$ 12,626,007	\$ 3,096,391	\$ 1,883,988	\$ 936,191	\$ 23,975,684	\$ 5,345,098
Investments	4,365,149	10,010,077	-	-	-	14,375,227	3,756,315
Accounts receivables (net)	580,729	689,618	356,164	232,805	89,526	1,948,841	-
Due from other governments	-	-	-	-	9,111	9,111	-
Inventories	-	-	-	-	11,543	11,543	15,225
Total current assets	10,378,986	23,325,702	3,452,555	2,116,792	1,046,369	40,320,404	9,116,639
Noncurrent assets:							
Restricted cash	84,461	800	700	-	334,744	420,706	-
Land	104,351	1,327,220	201,810	-	3,175,421	4,808,802	-
Construction in progress	643,279	10,665,718	-	27,895	15,705	11,352,597	129,282
Buildings and systems	3,456	1,789,853	-	-	1,057,922	2,851,230	2,815,112
Improvements and infrastructure	18,770,019	17,035,089	51,998	3,594,001	164,080	39,615,187	456,342
Machinery and equipment	851,610	164,966	100,253	30,067	71,702	1,218,600	2,050,633
Total noncurrent assets	20,457,177	30,983,646	354,761	3,651,963	4,819,575	60,267,122	5,451,369
Total assets	30,836,163	54,309,348	3,807,315	5,768,756	5,865,944	100,587,526	14,568,007
Deferred Outflows of Resources							
Pension	27,552	45,765	38,694	23,696	21,325	157,033	105,409
Total deferred outflows of resources	27,552	45,765	38,694	23,696	21,325	157,033	105,409
resources	30,863,715	54,355,114	3,846,009	5,792,451	5,887,269	100,744,559	14,673,416
Liabilities							
Current liabilities:							
Accounts payable	350,534	762,901	115,112	4,740	35,745	1,269,032	59,115
Deposits	2,599	969	700	28	78,290	82,585	-
Retainage	6,577	121,385	-	-	-	127,962	-
Interest payable	1,580	21,460	-	1,227	6,587	30,854	-
Notes payable	-	10,000,000	-	-	-	10,000,000	-
Compensated absences	4,602	2,194	7,910	8,372	1,743	24,821	24,772
Due to other governments	51,344	-	-	58,585	-	109,929	-
Bonds payable, net	-	-	-	-	105,000	105,000	-
Total current liabilities	417,237	10,908,908	123,722	72,952	227,364	11,750,183	83,887
Noncurrent liabilities:							
Compensated absences	35,110	18,566	63,123	63,713	15,936	196,448	191,186
Due to other governments	490,462	7,302,690	-	878,771	-	8,671,923	-
Bonds payable, net	-	-	-	-	1,924,371	1,924,371	-
Pension Obligation	231,348	385,169	321,476	196,669	178,321	1,312,983	897,276
Total noncurrent liabilities	756,920	7,706,425	384,599	1,139,154	2,118,628	12,105,726	1,088,462
Total liabilities	1,174,157	18,615,333	508,321	1,212,106	2,345,992	23,855,909	1,172,349
Deferred Inflows of Resources							
Pension	44,173	73,542	61,381	37,551	34,048	250,695	159,493
Total deferred inflows of resources	44,173	73,542	61,381	37,551	34,048	250,695	159,493
resources	1,218,329	18,688,876	569,702	1,249,657	2,380,040	24,106,604	1,331,842
Net Position							
Net investment in capital assets	19,830,910	13,680,156	354,061	2,714,607	2,455,459	39,035,193	5,451,369
Restricted for:							
Capital projects	81,928	-	-	-	-	81,928	-
Debt service	-	-	-	-	257,000	257,000	-
Unrestricted	9,732,549	21,986,082	2,922,247	1,828,187	794,770	37,263,835	7,890,205
Total net position	\$ 29,645,386	\$ 35,666,238	\$ 3,276,308	\$ 4,542,794	\$ 3,507,229	\$ 76,637,955	\$ 13,341,574

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

City of Oak Harbor
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2015

	Business-type Activities					Governmental Activities	
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste and Solid Waste Reserve Fund	Storm Drain and Storm Drain Reserve Fund	Marina and Marina Reserve Fund	Total Enterprise Funds	Internal Service Funds
Operating Revenues							
Charges for services	\$ 5,915,860	\$ 6,039,874	\$ 3,386,609	\$ 1,871,469	\$ 1,375,453	\$ 18,589,265	\$ 2,853,718
System development revenues	132,483	74,930	-	-	-	207,413	-
Other operating revenues	1,875	1,938	-	7,764	-	11,577	2,319,172
Total operating revenues	<u>6,050,218</u>	<u>6,116,742</u>	<u>3,386,609</u>	<u>1,879,234</u>	<u>1,375,453</u>	<u>18,808,256</u>	<u>5,172,889</u>
Operating Expenses							
Cost of sales and service	2,231,458	703,976	626,245	385,872	678,165	4,625,717	2,071,045
Contractual services	58,184	106,286	7,878	37,775	19,562	229,685	244,017
Utilities	39,377	230,645	1,212,594	5,014	95,043	1,582,673	69,796
Taxes	620,525	459,179	345,391	135,271	295	1,560,661	(4,957)
Repairs and maintenance	59,847	101,322	313,660	58,010	96,215	629,054	218,758
Other operating expenses	557,560	2,784,893	715,638	286,087	189,390	4,533,567	873,819
Insurance claims and expenses	20,305	92,351	21,046	6,320	15,269	155,291	31,219
Depreciation	949,701	989,093	69,659	239,139	194,447	2,442,040	566,269
Total operating expenses	<u>4,536,958</u>	<u>5,467,745</u>	<u>3,312,111</u>	<u>1,153,487</u>	<u>1,288,367</u>	<u>15,758,688</u>	<u>4,069,966</u>
Operating income (loss)	<u>1,513,260</u>	<u>648,998</u>	<u>74,498</u>	<u>725,746</u>	<u>87,065</u>	<u>3,049,567</u>	<u>1,102,923</u>
Nonoperating Revenues (Expenses)							
Interest revenue	19,142	17,918	15,963	5,498	4,620	63,140	(2,460)
External subsidies	-	11,722	-	20,650	17,249	49,621	-
Other nonoperating revenues	52,104	28,500	8,353	3,058	50,283	142,297	33,833
Gain (loss) on sale of fixed assets	-	1,802	-	1,796	1,714	5,312	(79,137)
Interest expense	(2,816)	(84,184)	-	(2,968)	(81,753)	(171,720)	-
Total nonoperating revenues (expenses) and transfers	<u>68,430</u>	<u>(24,243)</u>	<u>24,316</u>	<u>28,034</u>	<u>(7,887)</u>	<u>88,650</u>	<u>(47,764)</u>
Capital contributions	1,581,690	624,755	98,813	753,780	79,179	3,138,218	1,055,159
Transfers in	193,442	123,472	-	70,462	-	387,376	-
Change in net position	<u>1,775,132</u>	<u>748,227</u>	<u>98,813</u>	<u>824,242</u>	<u>79,179</u>	<u>3,525,594</u>	<u>20,000</u>
Total net position - beginning	27,870,254	34,918,011	3,177,494	3,718,552	3,428,051	73,112,362	12,266,415
Total net position - ending	<u>\$ 29,645,386</u>	<u>\$ 35,666,238</u>	<u>\$ 3,276,308</u>	<u>\$ 4,542,794</u>	<u>\$ 3,507,229</u>	<u>\$ 76,637,955</u>	<u>\$ 13,341,574</u>

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

City of Oak Harbor
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2015

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste and Solid Waste Reserve Fund	Storm Drain and Storm Drain Reserve Fund	Marina and Marina Reserve Fund	Total Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities							
Cash receipts from customers	\$ 6,002,226	\$ 5,980,836	\$ 3,374,039	\$ 1,877,262	\$ 1,339,259	\$ 18,573,622	\$ -
Receipts from interfund services provided	368	33,217	-	27,141	-	60,725	5,172,889
Payments to suppliers	(2,795,059)	(492,204)	(1,875,740)	(421,619)	(684,970)	(6,269,592)	(1,469,065)
Payments to employees	(308,948)	(491,875)	(409,936)	(264,569)	(252,374)	(1,727,702)	(1,126,989)
Payments for interfund services used	(552,922)	(2,740,530)	(1,013,015)	(299,537)	(158,346)	(4,764,349)	(960,622)
Net cash provided (used) by operating activities	<u>2,345,665</u>	<u>2,289,443</u>	<u>75,348</u>	<u>918,679</u>	<u>243,569</u>	<u>5,872,704</u>	<u>1,616,213</u>
Cash Flows From Noncapital Financing Activities							
Transfers from other funds	-	-	-	-	-	-	20,000
Receipts from miscellaneous revenues	52,104	40,221	8,353	23,708	67,532	191,918	33,833
Net cash provided (used) by noncapital financing activities	<u>52,104</u>	<u>40,221</u>	<u>8,353</u>	<u>23,708</u>	<u>67,532</u>	<u>191,918</u>	<u>53,833</u>
Cash Flows From Capital and Related Financing Activities							
Proceeds from capital debt	-	17,302,690	-	165,707	-	17,468,397	-
Principal paid on capital debt	(51,344)	(1,670,000)	-	(48,228)	(104,453)	(1,874,025)	-
Interest paid on capital debt	(2,719)	(86,840)	-	(2,735)	(81,950)	(174,243)	-
Purchases of capital assets	(481,577)	(7,328,274)	-	(15,883)	(39,637)	(7,865,370)	(518,759)
Proceeds from sales of capital assets	-	1,802	-	1,796	1,714	5,312	(79,137)
Net cash provided (used) by capital and related financing activities	<u>(535,640)</u>	<u>8,219,378</u>	<u>-</u>	<u>100,658</u>	<u>(224,325)</u>	<u>7,560,071</u>	<u>(597,896)</u>
Cash Flows From Investing Activities							
Proceeds from sale and maturity of investments	-	-	1,346,007	375,160	529,677	2,250,844	-
Purchase of investments	(772,066)	(4,590,028)	-	-	-	(5,362,095)	(149,637)
Interest and dividends received	19,142	17,918	15,963	5,498	4,620	63,140	(2,460)
Net cash provided (used) by investing activities	<u>(752,925)</u>	<u>(4,572,110)</u>	<u>1,361,970</u>	<u>380,658</u>	<u>534,297</u>	<u>(3,048,111)</u>	<u>(152,097)</u>
Net increase (decrease) in cash and cash equivalents	1,109,205	5,976,933	1,445,670	1,423,702	621,073	10,576,583	920,053
Balances - beginning of year	4,408,364	6,649,874	1,651,420	460,285	649,862	13,819,807	4,425,045
Balances - end of the year	<u>\$ 5,517,569</u>	<u>\$ 12,626,807</u>	<u>\$ 3,097,091</u>	<u>\$ 1,883,988</u>	<u>\$ 1,270,935</u>	<u>\$ 24,396,390</u>	<u>\$ 5,345,098</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating Income	\$ 1,513,260.33	\$ 648,997.63	\$ 74,497.71	\$ 725,746.31	\$ 87,065.35	\$ 3,049,567.33	\$ 1,102,922.88
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	949,701	989,093	69,659	239,139	194,447	2,442,040	566,269
Changes in assets and liabilities:							
Change in accounts receivable	(47,410)	(101,180)	(8,570)	(4,131)	(23,701)	(184,992)	-
Change in due from other governments	-	-	-	29,273	(128)	29,145	-
Change in inventories	-	-	-	-	12,884	12,884	12,918
Change in deferred outflows	(13,401)	(23,628)	(19,786)	(12,649)	(11,377)	(80,842)	(56,809)
Change in accounts payable	177,361	701,674	6,758	(20,217)	4,564	870,140	26,786
Change in deposits	(214)	(1,510)	(4,000)	28	(12,365)	(18,060)	-
Change in retainage	(189,250)	121,385	-	(31,783)	-	(99,648)	-
Change in compensated absences	(4,007)	(2,474)	5,318	1,519	3,546	3,903	14,014
Change in pension obligation	12,475	37,575	22,571	28,669	23,289	124,580	109,963
Change in deferred inflows	(52,850)	(80,491)	(71,099)	(36,914)	(34,656)	(276,011)	(159,851)
Net cash provided (used) by operating activities	<u>\$ 2,345,665</u>	<u>\$ 2,289,443</u>	<u>\$ 75,348</u>	<u>\$ 918,679</u>	<u>\$ 243,569</u>	<u>\$ 5,872,704</u>	<u>\$ 1,616,213</u>
Cash Reconciliation							
Actual Balance - end of year	\$ 5,517,569	\$ 12,626,807	\$ 3,097,091	\$ 1,883,988	\$ 1,270,935	\$ 24,396,390	\$ 5,345,098
Balance - end of year out of balance	-	-	-	-	-	-	-

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

Notes to the Basic Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

The Oak Harbor Library -

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

North Whidbey Park District -

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

The *Water and Water Reserve Fund* accounts for providing water services. Its revenues are mostly received from service charges and system connection charges. Expenses are for maintenance and operations of a water supply, storage and distribution system. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *Sewer and Sewer Reserve Fund* accounts for providing sewer services. Its revenues are mostly received from service charges and system connection charges. Expenses are for maintenance and extensions of drainage, sewer service facilities, maintaining sewer collection and transmission systems. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

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

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

The *Marina and Marina Reserve Fund* accounts for the operation, construction, and maintenance of the municipal marina. Revenues consist of service and rental fee income received from visiting boaters and permanent tenants who live onboard moored vessels, in addition to operating transfers. Expenses are for operations, maintenance and repairs of marina infrastructure, and capital upgrades such as dredging and dock replacement. This fund also reflects the operation of general obligation bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges for goods and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

Scope of Budget

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

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

Amending the Budget

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

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

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

Budgetary Compliance

In 2015, expenditures exceeded budgeted appropriations in the Shop Facility Fund by \$857,298. This overage was due to a prior period adjustment to restate the beginning balance for pensions per the new GASB 68. This is a non-cash expense.

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

Deficit Fund Net Position

The City had no funds with deficit net position.

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

Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses (see Note 3 - Deposits and Investments). As of December 31, 2015, the Finance Director was holding \$41,378,540 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds based upon the fund's average daily cash balance. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The City also invest funds with the Washington State Local Governmental Investment Pool (LGIP). The City considers these funds to be cash and cash equivalents due to their highly liquid nature.

Investments

In accordance with GASB 31, investments are stated at fair value (see Note 3 - Deposits and Investments). The City uses quoted market prices at December 31, 2015 to establish the fair market value of investments and adjusts the carrying value accordingly. Investments are allocated to individual funds based on the fund's prorated percentage of cash balance at year end. As of December 31, 2015, the City had \$22,096,640 in investments.

Receivables

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

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

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

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

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

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

Inventories

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

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

Restricted Assets and Liabilities

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

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

	Governmental	Business-type
Capital projects	\$ -	\$ 81,928
Customer deposits	400	81,778
Debt service	-	257,000
Impact fees	978,822	-
Total restricted cash	\$ 979,222	\$ 420,706

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

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

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

The costs for normal maintenance and repairs are not capitalized.

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

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

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

Deferred Inflows of Resources

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

Compensated Absences

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

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

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

Other Post-Employment Benefits

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

Long-term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financing uses (see Note 9 - Long-term Debt).

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value (see Note 6 – Pension Plans).

Custodial Accounts

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

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Also, all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities, those once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. When due, bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements.

Unearned Revenues

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

Fund Balance Classification Policies and Procedures

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

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

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

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

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

Assigned fund balance includes:

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

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

Fund Balance Spending Order

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

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

General Fund Stabilization Arrangement

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

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

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

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

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

- (a) Available reserves in the General Fund Revenue Stabilization Fund exceed twenty five percent (25%) of prior year revenues to the General Fund or \$3,000,000, whichever is

greater, and the Council by majority vote appropriates all or part of the excess available reserves; or

- (b) The council makes a written finding that a non-routine emergency or other non-routine exigent circumstances exist that require use of city General Fund reserves and by a minimum of four affirmative votes appropriates all or part of the available reserves in the General Fund Revenue Stabilization Fund.

As of December 31, 2015, the cash balance for the Stabilization arrangement is \$3,398,100.

Details of Fund Balance Classification

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

	General Fund	Other Governmental Funds	Total
Fund Balances:			
Restricted for:			
Drug Seizure Program	\$ 10,299	\$ -	\$ 10,299
Public Safety	7,104	-	7,104
Street Surface Improvements	-	1,409,843	1,409,843
Arterial Traffic Improvements	-	1,281,397	1,281,397
Transportation Capital Improvements	-	838,013	838,013
Paths And Trails Improvements	-	10,000	10,000
Tourism Promotion	-	686,210	686,210
Park Improvement Programs	223	140,809	141,032
Capital Facilities Plan	-	2,119,717	2,119,717
Committed to:			
Street Surface Improvements	-	180,000	180,000
Transportation Capital Improvements	-	350,905	350,905
Community Art Acquisition and Maintene	-	63,434	63,434
Park Improvement Programs	-	262,126	262,126
Senior Services Program	-	70,079	70,079
Municipal Pier Capital Project	-	168,900	168,900
Waterfront Redevelopment Fund	-	379,552	379,552
Assigned to:			
Stabilization Arrangement	3,398,100	-	3,398,100
Municipal Court	121,228	-	121,228
Whidbey Marathon Operating Funds	(2,173)	-	(2,173)
Office Operations	20,936	-	20,936
Unassigned:	5,240,562	-	5,240,562
Total Fund Balances	\$8,796,279	\$ 7,960,985	\$16,757,264

Note: Totals may not foot due to rounding.

Note 2 – Stewardship, Compliance, and Accountability

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

Note 3 – Deposits and Investments

The City of Oak Harbor's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). The FDIC insures the first \$250,000 of the City's deposits. The deposit balances over \$250,000 are collateralized by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

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

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

Type	Fair Value	Investment Maturities (In Months)			% of Portfolio
		Under 1 Year	1 - 2 Years	Over 2 Years	
Cash & cash equivalents					
FDIC or PDPC insured bank deposits	\$ 24,566,576	\$ 24,566,576	\$ -	\$ -	37.87%
Petty Cash on hand	7,359	7,359	-	-	0.01%
Washington State Local Government Inv. Pool	18,204,533	18,204,533	-	-	28.06%
Total cash & cash equivalents	\$ 42,778,468	\$ 42,778,468	\$ -	\$ -	65.94%
Investments					
Federal Farm Credit Bank	\$ 990,037	\$ -	\$ 990,037	\$ -	1.53%
Federal Home Loan Bank	5,063,184	4,017,734	-	1,045,450	7.80%
Federal Home Loan Mortgage Corporation	5,988,902	-	4,998,079	990,823	9.23%
FICO Strips	3,026,005	1,025,450	2,000,556	-	4.66%
Federal National Mortgage	7,028,512	3,010,416	4,018,096	-	10.83%
Total investments	\$ 22,096,640	\$ 8,053,600	\$ 12,006,767	\$ 2,036,273	34.06%
Total cash & cash equivalents and investments	\$ 64,875,108	\$ 50,832,067	\$ 12,006,767	\$ 2,036,273	100.00%

Note: Totals may not foot due to rounding.

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

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the City's policy requires that it diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days.

Credit Risk. Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The City's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The credit ratings on securities held by the City on December 31, 2015 were AA+ by Standard and Poor.

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

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

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

Note 4 – Property Taxes

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

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

Property taxes are recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which they apply are recorded as deferred inflow and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal and delinquent taxes are evaluated annually.

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

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

The City's regular levy for 2015 was \$2.5439 per \$1,000 on an assessed valuation of \$1,596,639,892 for a regular levy of \$4,061,649.

Note 5 – Capital Assets and Depreciation

Governmental-type capital assets activity for the year ended December 31, 2015 was as follows:

Governmental Activities:	Beginning Balance			Ending Balance
	1/1/2015	Increases	Decreases	12/31/2015
Capital assets not being depreciated:				
Land	\$ 10,852,875	\$ -	\$ (29,000)	\$ 10,823,875
Construction in progress	130,159	480,202	(129,659)	480,702
Intangible assets	50,000	-	-	50,000
Total capital assets not depreciated:	\$ 11,033,034	\$ 480,202	\$ (158,659)	\$ 11,354,577
Assets depreciated:				
Buildings	\$ 11,364,994	\$ -	\$ -	\$ 11,364,994
Capital lease	138,572	-	-	138,572
Improvements & infrastructure	35,254,571	248,649	-	35,503,220
Machinery & equipment	11,139,281	580,028	(274,003)	11,445,306
Total capital assets depreciated:	\$ 57,897,418	\$ 828,677	\$ (274,003)	\$ 58,452,092
Less accumulated depreciation:				
Buildings	\$ (5,385,859)	\$ (228,668)	\$ -	\$ (5,614,527)
Capital lease	(138,572)	-	-	(138,572)
Improvements & infrastructure	(22,994,002)	(1,101,386)	-	(24,095,388)
Machinery & equipment	(8,461,661)	(532,662)	238,608	(8,755,715)
Total accumulated depreciation:	\$ (36,980,094)	\$ (1,862,716)	\$ 238,608	\$ (38,604,202)
Total capital assets depreciated (net):	\$ 20,917,324	\$ (1,034,039)	\$ (35,395)	\$ 19,847,890
Governmental activities				
total capital assets (net):	\$ 31,950,357	\$ (553,837)	\$ (194,054)	\$ 31,202,467

Note: Totals may not foot due to rounding.

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

Governmental Activities:	
General governmental	\$ 43,513
Public safety	48,121
Transportation	1,066,094
Natural & economic environment	10,445
Social Services	15,268
Cultural and recreational	113,006
Internal service	566,269
Total depreciation expense - governmental activities	\$ 1,862,716

Note: Totals may not foot due to rounding.

Business-type capital assets activity for the year ended December 31, 2015 was as follows:

Business-type Activities:	Beginning Balance			Ending Balance
	1/1/2015	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 4,808,802	\$ -	\$ -	\$ 4,808,802
Construction in progress	11,314,517	7,723,838	(7,685,757)	11,352,597
Total capital assets not depreciated:	\$ 16,123,319	\$ 7,723,838	\$ (7,685,757)	\$ 16,161,399
Capital assets being depreciated:				
Buildings	\$ 6,760,270	\$ -	\$ (30,982)	\$ 6,729,288
Improvements	61,787,161	7,982,684	-	69,769,845
Machinery & equipment	5,332,380	231,981	(55,229)	5,509,132
Total capital assets depreciated:	\$ 73,879,811	\$ 8,214,665	\$ (86,211)	\$ 82,008,265
Less accumulated depreciation:				
Buildings	\$ (3,759,452)	\$ (149,587)	\$ 30,982	\$ (3,878,057)
Improvements	(28,238,523)	(1,916,136)	-	(30,154,659)
Machinery & equipment	(3,969,445)	(376,317)	55,229	(4,290,532)
Total accumulated depreciation:	\$ (35,967,420)	\$ (2,442,040)	\$ 86,211	\$ (38,323,248)
Total capital assets depreciated (net):	\$ 37,912,391	\$ 5,772,626	\$ -	\$ 43,685,017
Business-type activities total capital assets (net):	\$ 54,035,710	\$ 13,496,464	\$ (7,685,757)	\$ 59,846,416

Note: Totals may not foot due to rounding.

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

Business-type Activities:	
Water	\$ 949,701
Sewer	989,093
Solid waste	69,659
Storm drain	239,139
Marina	194,447
Total depreciation expense - business-type activities	\$ 2,442,040

Note: Totals may not foot due to rounding.

The City has active construction projects as of December 31, 2015. The projects include construction of a new water reservoir and booster station and design of a wastewater treatment plant.

Project	Spent to Date	Remaining Commitment
Wastewater treatment plant	\$ 10,397,717	\$ 15,014,827
North booster station	601,035	427,865
Scenic Heights outfall	22,489	27,348
NE 4th Water Main	160,951	106,028
Waterfront Trail	32,070	18,946
Total	\$ 11,214,262	\$ 15,595,014

Note 6 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB 68, Accounting and Financial Reporting for Pensions for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$4,954,212
Pension assets	(1,174,793)
Deferred outflows of resources	(840,877)
Deferred inflows of resources	1,219,580
Pension expense/expenditures	131,067

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The City's actual contributions to the plan were \$293,354 for the year ended December 31, 2015.

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

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

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

members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The City's actual contributions to the plan were \$328,397 for the year ended December 31, 2015.

Public Safety Employees' Retirement System (PSERS)

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

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

PSERS membership includes:

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

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),

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

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

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

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

Actual Contribution Rates:	Employer	Employee
January through June 2015	10.54%	6.36%
July through December 2015	11.54%	6.59%

The City's actual contributions to the plan were \$20,172 for the year ended December 31, 2015.

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

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

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

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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

Contributions

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Actual Contribution Rates:	Employer 2/3	Employee 2
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions to the plan were \$162,389 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

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

future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%
	100.00%	

Sensitivity of NPL

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

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$3,443,477	\$2,828,312	\$2,299,326
PERS 2/3	6,163,055	2,107,711	(997,315)
PSERS 2	138,221	18,190	(67,193)
LEOFF 1	(77,128)	(120,558)	(157,575)
LEOFF 2	983,730	(982,320)	(2,461,847)

Pension Plan Fiduciary Net Position

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

At June 30, 2015, the City reported a total pension liability of \$4,954,213 for its proportionate share of the net pension liabilities and a total pension asset of \$1,102,878 for its proportionate share of the net pension assets as follows.

Liability (Asset)	
PERS 1	\$2,828,312
PERS 2/3	2,107,711
PSERS 2	18,190
LEOFF 1	(120,558)
LEOFF 2	(982,320)

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

LEOFF 2	Asset
Employer’s proportionate share	(\$982,320)
State’s proportionate share of the net pension asset associated with the employer	(649,516)
Total	(\$1,631,836)

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

Plan	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.059465%	0.054069%	-0.005396%
PERS 2/3	0.064433%	0.058989%	-0.005444%
PSERS 2	0.099104%	0.099662%	0.000558%
LEOFF 1	0.007595%	0.010003%	0.002408%
LEOFF 2	0.105697%	0.095575%	-0.010122%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the City recognized pension expense as follows:

Pension Expense	
PERS 1	(127,567)
PERS 2/3	209,588
PSERS 2	22,352
LEOFF 1	(42,224)
LEOFF 2	72,800

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	154,740
Changes of assumptions	-	-
Contributions subsequent to the measurement date	(163,183)	-
Total	\$ (163,183)	\$ 154,740

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (224,050)	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	562,659
Changes of assumptions	(3,396)	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	175,169
Contributions subsequent to the measurement date	(190,506)	-
Total	\$ (417,952)	\$ 737,828

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (17,042)	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	9,022
Changes of assumptions	(113)	-
Changes in proportion and differences between contributions and proportionate share of contributions	(34)	-
Contributions subsequent to the measurement date	(10,394)	-
Total	\$ (27,583)	\$ 9,022

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	20,353
Changes of assumptions	-	-
Contributions subsequent to the measurement date	-	-
Total	\$ -	\$ 20,353

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (86,018)	\$ -
Net difference between projected and actual investment earnings on pension plan investments		-
Changes of assumptions	(2,591)	297,638
Changes in proportion and differences between contributions and proportionate share of contributions	(53,051)	-
Contributions subsequent to the measurement date	(90,498)	-
Total	\$ (232,158)	\$ 297,638

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows (prepare a separate table for each plan):

Year Ended	PERS 1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2
December 31:					
2016	(\$59,972)	(\$204,285)	(\$736)	(\$7,898)	(\$89,109)
2017	(59,972)	(204,285)	(736)	(7,898)	(89,109)
2018	(59,972)	(204,285)	(737)	(7,898)	(89,110)
2019	25,176	102,473	4,646	3,340	78,659
2020	-	-	2,865	-	27,243
Thereafter	-	-	2,864	-	5,449

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

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 500 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes 40 percent of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

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

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

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

Contributions

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

The contribution rates for 2015 were as follows:

	Firefighters	EMSD and Reserve Officers
Municipality fee	\$30	\$105
Member fee	30	30

The City's actual contributions to the plan were \$900 for the year ended December 31, 2015. The City has opted to pay members' fees on their behalf. Contributions on behalf of members were \$900 for the year ended December 31, 2015.

In accordance with Chapter 41.24 RCW, the state contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2015, the fire insurance premium tax contribution was \$5.9 million.

Actuarial Assumptions

The total pension liability for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2014, and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 3%
- Salary increases: N/A
- Investment rate of return: 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 valuation report.

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

Discount Rate

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7 percent was determined using a building-block-method. As the plan has assets managed by both the Washington State Investment Board (WSIB) and the Office of the State Treasurer (OST), the long-term expected rate of return of 7 percent represents an approximate weighted-average of the assets managed by WSIB (7.5% expected return) and OST (4 percent expected return). The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB’s capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%
	100.00%	

Sensitivity of NPL

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

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
VFFRPF	\$24,544	(\$71,915)	(\$149,782)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the City reported an asset of \$71,915 for its proportionate share of the VFFRPF plan’s net pension asset. The City’s proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2015, the City’s proportion was 0.37%.

The VFFRPF collective net pension asset was measured as of June 30, 2015, and the actuarial valuation date on which the total pension asset is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

For the year ended December 31, 2015, the City recognized pension expense of \$(4,182). Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

Note 7 – Risk Management

The City of Oak Harbor is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

The City proactively participates in on-going training for staff regarding current practices and risk mitigation procedures in order to effectively limit claims loss exposure. No claims in any of the past three years exceeded the City's insurance coverage. None of the current claims or lawsuits made or expected to be made against the City appear to have any reasonable likelihood of significantly affecting the City's financial situation for 2015.

Note 8 – Short-term Debt

In 2015, the City entered into a bond anticipation note with US Bank for the Wastewater Treatment Plant project which will be paid off in May 2016 with the proceeds from the future revenue bond issuance. The anticipated interest cost is \$35,378.

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
Bond Anticipation Note	2016	0.64%	\$10,000,000	\$10,000,000

Note 9 – Long-term Debt

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

General Obligation Bonds

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

General obligation debt currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
2011 OAKLTGO11 Marina Bond	2030	2.25% - 4.40%	\$2,570,000	\$2,040,000

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

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ -	\$ -	\$105,000	\$79,040
2017	-	-	110,000	76,678
2018	-	-	110,000	73,378
2019	-	-	115,000	70,078
2020	-	-	120,000	66,340
2021-2025	-	-	670,000	260,800
2026-2030	-	-	810,000	109,780
Total	\$ -	\$ -	\$2,040,000	\$736,094

At December 31, 2015, the City has restricted assets in proprietary funds containing \$257,000 in reserves as required by bond indentures.

Revenue Bonds

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

In 2015, the City retired the remaining balance of \$1,670,000 on the sewer bond early.

Public Works Trust Fund Loans

The City of Oak Harbor is also liable for balances due to other governments for Public Works Trust Fund (PWTF) loans. Two of these loans were entered into for the replacement of the City’s water transmission line, as required by the Washington State Department of Transportation. They have a combined outstanding balance of \$541,807 and the debt service will be repaid from Water and Water Reserve revenue. The third loan was for the replacement of the 42” storm drain outfall. The outstanding balance of \$937,356 will be repaid from the Storm Drain and Storm Drain Reserve Fund revenues.

PWTF loans currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
PW-05-691-042 Public Works Trust Fund Loan	2025	0.50%	\$436,642	\$229,812
PW-06-962-031 Public Works Trust Fund Loan	2026	0.50%	\$538,900	\$311,995
PW-12-951-048 Public Works Trust Fund Loan	2031	0.25%	\$985,584	\$937,356

Balances due for the debt service requirements on PWTF loans to maturity are as follows:

Year Ending December 31,	Principal	Interest
2016	\$109,929	\$4,881
2017	109,929	4,649
2018	109,929	4,246
2019	109,929	3,843
2020	109,929	3,440
2021-2025	549,645	11,151
2026-2030	321,287	3,071
2031-2036	58,586	146
Total	\$1,479,163	\$35,427

Department of Ecology State Revolving Fund (SRF) Loans

Department of Ecology loans are payable from revenues generated by the City’s Sewer and Sewer Reserve fund. The \$3.2 million loan was for the construction of the Sewer Outfall and the \$8.3 million was for the Wastewater Treatment Plant.

SRF loans currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
WQC-2015 OakHar-00110 State Revolving Funds Loan	2036	2.70%	\$3,200,000	\$3,200,000
WQC-2015 OakHar-00021 State Revolving Funds Loan	2037	2.70%	\$8,260,000	\$8,260,000

Balances due for the debt service requirements on SRF loans to maturity are as follows:

Year Ending December 31,	Principal	Interest
2016	\$0	\$0
2017	20,776	86,870
2018	183,474	309,681
2019	468,556	302,461
2020	481,365	289,652
2021-2025	2,611,551	1,243,533
2026-2030	2,988,564	866,521
2031-2036	3,420,002	435,082
2037	1,285,712	41,029
Total	\$11,460,000	\$3,574,828

Note 10 – Leases and Contract Obligations

Operating Leases

The City of Oak Harbor leases office building and other equipment under non-cancelable operating leases. Total cost for such leases was \$80,770 for the year ending December 31, 2015. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2016	56,448
2017	38,403
2018	19,917
2019	15,803
2020	10,515
Total	\$141,086

Capital Leases

The City has no capital lease agreements and did not enter into any capital lease agreements during 2015.

Contracts

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

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

The asset acquired through this agreement is as follows:

Asset	Governmental Activities
Respite modular	\$ 138,572
Less rent expense	(138,572)
Total	\$ -

Note 11 – Changes in Long-term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities (inclusive of both portions due within one year and due in more than one year):

	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Governmental Activities:					
OPEB obligation	\$ 797,529	\$ 229,248	\$ (88,433)	\$ 938,344	\$ -
Pension obligation	-	3,641,229	-	3,641,229	-
Compensated absences	1,085,910	245,014	-	1,330,925	147,728
Government activity long-term liabilities:	\$ 1,883,439	\$ 4,115,492	\$ (88,433)	\$ 5,910,498	\$ 147,728
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 2,145,000	\$ -	\$ (105,000)	\$ 2,040,000	\$ 105,000
Revenue bonds	1,670,000	-	(1,670,000)	-	-
Premiums	5,070	-	(248)	4,822	-
Discounts	(16,246)	-	795	(15,451)	-
Total bonds payable:	3,803,824	-	(1,774,453)	2,029,371	105,000
Due to other governments:					
PWTF loans	1,413,027	165,707	(99,572)	1,479,162	109,929
SRF loans	-	7,302,690	-	7,302,690	-
Pension obligation	-	1,312,983	-	1,312,983	-
Compensated absences	419,311	-	(198,042)	221,269	24,821
Business-type activity long-term liabilities	\$ 5,636,162	\$ 8,781,380	\$ (2,072,067)	\$ 12,345,476	\$ 239,750

Note 12 – Contingencies and Litigations

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

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

Note 13 – Restricted Components of Net Position

The government-wide statement of net position reports \$6,842,542 of restricted components of net position which is restricted by statute or enabling legislation.

Note 14 – Interfund Balances and Transfers

Interfund Balances

Due to other funds and due from other funds results from goods issued, work performed, or services rendered to or for the benefit of another fund when cash is not immediately moved between the funds. There were no interfund balances at December 31, 2015.

Interfund Transfers

The primary purpose of interfund transfers is to support the operations of other funds and contribution for capital projects. Interfund transfers at December 31, 2015 were as follows:

Transfers Out	Transfers In			Total
	General Fund	Nonmajor Governmental Funds	Internal Service	
General fund	\$ -	\$ 135,000	\$ 20,000	\$ 155,000
Nonmajor governmental funds	19,295	-	-	19,295
Total	\$ 19,295	\$ 135,000	\$ 20,000	\$ 174,295

Interfund Loan Activity

There were no interfund loans during 2015.

Note 15 – Receivable and Payables Balances

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

Receivables at December 31, 2015 were as follows:

Receivables:	General Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total
	Property taxes	\$ 152,380	\$ -	\$ -	\$ -	\$ -	\$ -	
Municipal court	1,138,883	-	-	-	-	-	-	1,138,883
Customer accounts	11	-	580,729	660,118	356,164	232,805	89,525	1,919,352
Special assessments	-	17,438	-	-	-	-	-	17,438
Other accounts	14,672	-	-	29,500	-	-	-	44,172
Other taxes	927,489	-	-	-	-	-	-	927,489
Grants	7,327	-	-	-	-	-	9,111	16,438
Gross receivables	2,240,762	17,438	580,729	689,618	356,164	232,805	98,636	4,216,152
Less: allowance for uncollectible	(1,017,655)	-	-	-	-	-	-	(1,017,655)
Net total receivables	\$1,223,107	\$ 17,438	\$580,729	\$689,618	\$356,164	\$ 232,805	\$98,636	\$3,198,497

Total governmental activities receivables were \$1,240,544 and business-type activities receivables were \$1,957,951.

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report

unearned revenue recognition in connection with resources that have been received but not yet earned. Total governmental activities unearned revenue at December 31, 2015 was \$155,357.

Note 16 – Post-retirement Benefits Other Than Pension Benefits

Other Post-employment Benefits (OPEB)

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members necessary hospital, medical, and nursing care expenses not payable by worker’s compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by the City’s employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the City’s Comprehensive Annual Financial Report. The City currently has five participants in the LEOFF 1 system consisting of five retired individuals.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City’s annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years as of January 1, 2008. The following table shows the components of the City’s annual OPEB cost and the change in the City net OPEB obligation (NOO). The NOO of \$938,343 is included as a noncurrent liability on the Statement of Net Position.

	Fiscal Year Ending 12/31/2015	
Determination of annual required contribution		
Normal costs at year end	\$	-
Amortization of unfunded actuarial accrued liabilities (UAAL)		269,078
Annual required contribution (ARC)		\$269,078
Determination of net OPEB obligation (NOO)		
Annual required contribution	\$	269,078
Interest on NOO		31,901
Adjustments to ARC		(71,731)
Annual OPEB cost		229,248
Contribution		(88,433)
Increase (decrease) in NOO		140,815
NOO - beginning		797,529
NOO - ending	\$	938,344

Funded Status and Funding Progress

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligations
12/31/2015	\$229,248	38.58%	\$938,343
12/31/2014	173,989	42.40%	797,529
12/31/2013	196,022	31.20%	697,320

As of December 31, 2015, the plan was 0% funded. The City's actuarial value of assets, accrued liability, UAAL, covered payroll and UAAL as a percentage of covered payroll was as follows:

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2015	\$ -	\$2,991,711	\$2,991,711	0.00%	\$ -	NA
12/31/2014	-	2,321,676	2,321,676	0.00%	32,780	7082.60%
12/31/2013	-	2,351,545	2,351,545	0.00%	98,340	2391.24%

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

Actuarial Methods and Assumptions

The City used the alternative measurement method permitted under GASB 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Note 17 – Pollution Remediation Obligations

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

The City has above-ground fuel tanks at both the Public Works facility and at the city marina. Both fuel tank systems utilizes the VeederRoot monitoring system which performs a series of daily tests on the fuel tanks and reports, among other things, any unusual fuel level variances or leakage occurrences in the tanks. The systems have not indicated any leaks or contamination in 2015.

The City owns a municipal landfill site which ceased receiving solid waste materials as of 1980. As required by the Island County Health Department, the City Engineering Department has conducted extensive monitoring of ground water and gas expulsion from 1980 to present. The City previously prepared a landfill closure plan, conducted Phase I during 1993, with completion of successive Phases implemented through 2003. In compliance with GASB 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the City of Oak Harbor has determined that there is no remaining landfill closure liability as of December 31, 2011. The City does continue to monitor the site for methane.

There have been no obligating events or issues of pollution remediation during 2015.

Note 18 – Other Disclosures

Accounting and Reporting Changes

In 2015, the City implemented GASB 68, *Accounting and Financial Reporting for Pensions*. The financials statement have been prepared using the provisions of the standard that require reporting of net pension assets, net pension obligations, deferred outflows and deferred inflows for the City’s proportionate share of 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. Please see Note 6 – Pension Plans in the accompanying Notes to the Financial Statements. Implementation of this standard has impacted the beginning net position in the Proprietary fund Statement of Revenues, Expenses, and Changes in Net Position and in the Government-wide Statement of Activities.

The City has determined that its internal service funds are governmental activities and have consolidated them in the government-wide financial statements accordingly. This has resulted in an increase in the beginning net position for governmental activities and reduction of the beginning net position for business-type activities in the Government-wide Statement of Activities.

Prior Period Adjustment – Correction of prior period variances in capital assets.

During 2015, the City found errors in their capital assets and corrected them. These included land and buildings that were not recorded correctly. These corrections resulted in a prior period adjustment which has impacted the beginning net position in the Proprietary fund Statement of Revenues, Expenses, and Changes in Net Position and in the Government-wide Statement of Activities.

The restatement of beginning net positions is as follows:

Government-wide Statement of Activities		
	Governmental Activities	Business-type Activities
2014 Ending net position	\$ 39,810,800	\$ 88,380,774
Beginning pension balances	(3,287,175)	(1,638,918)
Internal Service funds	13,324,472	(13,324,472)
Fixed assets correction	1,110,783	(305,021)
2015 Beginning net position	\$ 50,958,881	\$ 73,112,362

Proprietary Statement of Revenues, Expenses, and Changes in Net Position							Governmental
Business-type Activities						Internal Service	
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste and Solid Waste Reserve Fund	Storm Drain and Storm Drain Reserve Fund	Marina and Marina Reserve Fund	Total Enterprise Funds	Internal Service Funds
2014 Ending net position	\$ 28,218,013	\$ 35,495,595	\$ 3,589,972	\$ 4,110,885	\$ 3,641,837	\$ 75,056,301	\$ 13,324,472
Beginning pension balances	(301,745)	(479,490)	(412,477)	(231,420)	(213,787)	(1,638,918)	(1,058,057)
Fixed assets correction	(46,015)	(98,094)	-	(160,913)	-	(305,021)	-
2015 Beginning net position	\$ 27,870,254	\$ 34,918,011	\$ 3,177,494	\$ 3,718,552	\$ 3,428,051	\$ 73,112,362	\$ 12,266,415

While the City does not present comparative years in its financial statements, the Management's Discussion and Analysis component accompanying these financial statements discusses a government-wide financial analysis of both governmental and business-type activities for both 2015 and 2014. Accordingly, the City has presented the 2014 summary information in a format restated to include the correction of the capital asset variances as required.

	Ending Balance 12/31/2014	Prior Period Adjustments	Internal Service	Beginning Balance 1/1/2015
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 9,528,557	\$ 1,324,318		\$ 10,852,875
Construction in progress	66,308		63,851	130,159
Intangible assets	50,000			50,000
Total capital assets not depreciated:	\$ 9,644,865	\$ 1,324,318	\$ 63,851	\$ 11,033,034
Assets depreciated:				
Buildings	\$ 8,368,244	\$ (1,543,754)	\$ 4,540,503	\$ 11,364,994
Capital lease	138,572			138,572
Improvements & infrastructure	34,144,458	348,088	762,025	35,254,571
Machinery & equipment	2,168,654		8,970,627	11,139,281
Total capital assets depreciated:	\$ 44,819,928	\$ (1,195,665)	\$ 14,273,155	\$ 57,897,418
Less accumulated depreciation:				
Buildings	\$ (4,695,169)	\$ 943,891	\$ (1,634,581)	\$ (5,385,859)
Capital lease	(138,572)			(138,572)
Improvements & infrastructure	(22,764,659)	38,239	(267,582)	(22,994,002)
Machinery & equipment	(1,525,697)		(6,935,964)	(8,461,661)
Total accumulated depreciation:	\$ (29,124,098)	\$ 982,130	\$ (8,838,126)	\$ (36,980,094)
Total capital assets depreciated (net):	\$ 15,695,830	\$ (213,535)	\$ 5,435,028	\$ 20,917,324
Governmental activities total capital assets (net):	\$ 25,340,695	\$ 1,110,783	\$ 5,498,879	\$ 31,950,357

Note: Totals may not foot due to rounding.

Business-type Activities:	Ending Balance 12/31/2014	Water Adjustments	Sewer Adjustments	Storm Adjustments	Internal Service	Beginning Balance 1/1/2015
Capital assets not being depreciated:						
Land	\$ 7,849,404	\$ (672,268)	\$ (1,295,581)	\$ (1,072,753)	\$ -	\$ 4,808,802
Construction in progress	11,378,367	-	-	-	(63,851)	11,314,517
Total capital assets not depreciated:	\$ 19,227,771	\$ (672,268)	\$ (1,295,581)	\$ (1,072,753)	\$ (63,851)	\$ 16,123,319
Capital assets being depreciated:						
Buildings	\$ 11,300,773	\$ -	\$ -	\$ -	\$ (4,540,503)	\$ 6,760,270
Improvements	59,628,716	553,136	1,294,581	1,072,753	(762,025)	61,787,161
Machinery & equipment	14,303,007	-	-	-	(8,970,627)	5,332,380
Total capital assets depreciated:	\$ 85,232,496	\$ 553,136	\$ 1,294,581	\$ 1,072,753	\$ (14,273,155)	\$ 73,879,811
Less accumulated depreciation:						
Buildings	\$ (5,394,033)	\$ -	\$ -	\$ -	\$ 1,634,581	\$ (3,759,452)
Improvements	(28,321,215)	73,118	(97,094)	(160,913)	267,582	(28,238,523)
Machinery & equipment	(10,905,408)	-	-	-	6,935,964	(3,969,445)
Total accumulated depreciation:	\$ (44,620,657)	\$ 73,118	\$ (97,094)	\$ (160,913)	\$ 8,838,126	\$ (35,967,420)
Total capital assets depreciated (net):	\$ 40,611,838	\$ 626,254	\$ 1,197,487	\$ 911,840	\$ (5,435,028)	\$ 37,912,391
Business-type activities total capital assets (net):	\$ 59,839,610	\$ (46,015)	\$ (98,094)	\$ (160,913)	\$ (5,498,879)	\$ 54,035,710

Note: Totals may not foot due to rounding.

Subsequent Events

In February 2016, the City was awarded Department of Ecology SRF funding in the amount of \$20,882,311. This included a 20-year loan for \$15,832,311 at 1.9%, a forgivable principal loan for \$463,154 and a grant for \$4,586,846.

In May 2016, the City issued a 30-year \$25,720,000 revenue bond for the Wastewater Treatment Plant project. The interest rates range from 3.125% and 4.000%. The short-term \$10,000,000 bond anticipation note was paid off with these funds.

Required Supplementary Information

Pensions

Schedule of Proportionate Share

Schedule of Proportionate Share of Net Pension Liability PERS 1 As of June 30,	
	2015
Employer's proportion of the net pension liability	0.054069%
Employer's proportionate share of the net pension liability	\$2,828,312
Covered payroll	\$298,951
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	946.08%
Plan fiduciary net position as a percentage of the total pension liability	59.10%

Schedule of Proportionate Share of Net Pension Liability PERS 2/3 As of June 30,	
	2015
Employer's proportion of the net pension liability	0.058989%
Employer's proportionate share of the net pension liability	\$2,107,711
Covered payroll	\$5,233,775
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

Schedule of Proportionate Share of Net Pension Liability	
PSERS 2	
As of June 30,	
	2015
Employer's proportion of the net pension liability	0.099662%
Employer's proportionate share of the net pension liability	\$18,190
Covered payroll	\$291,813
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	6.23%
Plan fiduciary net position as a percentage of the total pension liability	95.08%

Schedule of Proportionate Share of Net Pension Asset	
LEOFF 1	
As of June 30,	
	2015
Employer's proportion of the net pension asset	0.010003%
Employer's proportionate share of the net pension asset	(\$120,558)
Covered payroll	\$0
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	NA
Plan fiduciary net position as a percentage of the total pension asset	127.36%

Schedule of Proportionate Share of Net Pension Asset LEOFF 2 As of June 30,	
	2015
Employer's proportion of the net pension asset	0.095575%
Employer's proportionate share of the net pension asset	(\$982,320)
State's proportionate share of the net pension asset associated with the employer	(\$1,631,836)
Total	(\$2,614,156)
Covered payroll	\$2,773,970
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	94.24%
Plan fiduciary net position as a percentage of the total pension asset	111.67%

Schedule of Proportionate Share of Net Pension Asset VFFRPF As of June 30,	
	2015
Employer's proportion of the net pension asset	0.370000%
Employer's proportionate share of the net pension asset	(\$71,915)
Covered payroll	\$330,861
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	21.74%
Plan fiduciary net position as a percentage of the total pension asset	110.22%

Schedule of Employer Contributions

Schedule of Employer Contributions PERS 1 As of December 31,	
	2015
Statutorily or contractually required contributions	\$23,929
Contributions in relation to the statutorily or contractually required contributions	(23,929)
Contribution deficiency (excess)	<u>\$0</u>
Covered payroll	\$246,037
Contributions as a percentage of covered employee payroll	9.73%

Schedule of Employer Contributions PERS 2/3 As of December 31,	
	2015
Statutorily or contractually required contributions	\$584,149
Contributions in relation to the statutorily or contractually required contributions	(584,149)
Contribution deficiency (excess)	<u>\$0</u>
Covered payroll	\$5,831,914
Contributions as a percentage of covered employee payroll	10.02%

Schedule of Employer Contributions PSERS 2 As of December 31,	
	2015
Statutorily or contractually required contributions	\$33,845
Contributions in relation to the statutorily or contractually required contributions	(33,845)
Contribution deficiency (excess)	<u>\$0</u>
Covered payroll	\$311,468
Contributions as a percentage of covered employee payroll	10.87%

Schedule of Employer Contributions LEOFF 1 As of December 31,	
	2015
Statutorily or contractually required contributions	\$0
Contributions in relation to the statutorily or contractually required contributions	0
Contribution deficiency (excess)	<u>\$0</u>
Covered payroll	\$0
Contributions as a percentage of covered employee payroll	NA

Schedule of Employer Contributions LEOFF 2 As of December 31,	
	2015
Statutorily or contractually required contributions	\$162,389
Contributions in relation to the statutorily or contractually required contributions	(162,389)
Contribution deficiency (excess)	<u>\$0</u>
Covered payroll	\$3,215,624
Contributions as a percentage of covered employee payroll	5.05%

Schedule of Employer Contributions VFFRPF As of December 31,	
	2015
Statutorily or contractually required contributions	\$1,800
Contributions in relation to the statutorily or contractually required contributions	(1,800)
Contribution deficiency (excess)	<u>\$0</u>
Covered payroll	\$324,407
Contributions as a percentage of covered employee payroll	0.55%

Please see Note 6 – Pension Plans in the accompanying Notes to the Financial Statements.

LEOFF 1 OPEB Medical Benefits

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2015	\$ -	\$2,991,711	\$2,991,711	0.00%	\$ -	NA
12/31/2014	-	2,321,676	2,321,676	0.00%	32,780	7082.60%
12/31/2013	-	2,351,545	2,351,545	0.00%	98,340	2391.24%
12/31/2012	-	1,585,877	1,585,877	0.00%	95,472	1661.09%
12/31/2011	-	1,637,907	1,637,907	0.00%	189,156	865.90%

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Other Contributing Entities	Annual Required Contributions (ARC)	Percentage of ARC Contributed
12/31/2015	\$88,434	\$ -	\$269,078	32.87%
12/31/2014	73,780	-	208,814	35.33%
12/31/2013	61,160	-	224,112	27.29%
12/31/2012	54,801	-	156,787	34.95%
12/31/2011	37,510	-	172,848	21.70%

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

**City of Oak Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Violence Against Women Office, Department Of Justice (via Crime Victims Advocacy (CTED) - CADA)	Violence Against Women Formula Grants	16.588	2013-WF-AX- 0055	11,451	-	11,451	-	1,2
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	NA	-	2,112	2,112	-	1,2
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via Transportation)	Highway Planning and Construction	20.205	NA	29,000	-	29,000	-	1,2
Total Highway Planning and Construction Cluster:				29,000	-	29,000	-	
Highway Safety Cluster								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Traffic Safety Commission)	State and Community Highway Safety	20.600	NA	1,641	-	1,641	-	1,2
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Sheriffs & Police Chiefs)	State and Community Highway Safety	20.600	NA	7,000	-	7,000	-	1,2
Total Highway Safety Cluster:				8,641	-	8,641	-	
Clean Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency (via Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2015- OakHar-00110	2,518,325	-	2,518,325	-	1,2
Office Of Water, Environmental Protection Agency (via Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2015- OakHar-00021	5,551,971	-	5,551,971	-	1,2
Office Of Water, Environmental Protection Agency (via Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- OakHar-00240	195,434	-	195,434	-	1,2,5
Office Of Water, Environmental Protection Agency (via Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- OakHar-00240	459,033	-	459,033	-	1,2,5
Total Clean Water State Revolving Fund Cluster:				8,724,763	-	8,724,763	-	
Department Of Homeland Security (via Island County)	Homeland Security Grant Program	97.067	E09-181	33,260	-	33,260	-	1,2,3
Total Federal Awards Expended:				8,807,115	2,112	8,809,227	-	

City of Oak Harbor, Washington

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Oak Harbor's financial statements. The City uses the accrual basis of accounting for all funds except governmental fund types which use the modified accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – NONCASH AWARDS – EQUIPMENT

The City received equipment and supplies that were purchased with federal Homeland Security funds by the state of Washington. The amount reported on the schedule includes \$23,108 for the value of the property on the date it was received by the City and priced by the County.

NOTE 4 – INDIRECT COST RATE

No indirect cost recovery is included. The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 5 – ALLOWABLE PRIOR YEAR EXPENDITURES

This funding allowed the City to capture expenditures from prior years. The amount report for WQC-2015-OakHar-00110 includes \$207,271 for expenditures for 2013 and \$51,436 for expenditures for 2014. The amount report for WQC-2015-OakHar-00021 includes \$873,015 for expenditures for 2013 and \$976,102 for expenditures for 2014.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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