

Washington State Auditor's Office
Financial Statements Audit Report

City of Oak Harbor
Island County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 1000980

Issue Date
April 6, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

April 6, 2009

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

Report on Financial Statements

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

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Island County
January 1, 2007 through December 31, 2007**

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

City of Oak Harbor Island County January 1, 2007 through December 31, 2007

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, Island County, Washington, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 26, 2009.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 26, 2009

Independent Auditor's Report on Financial Statements

City of Oak Harbor Island County January 1, 2007 through December 31, 2007

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, Island County, Washington, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed on page 5. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 26, 2009

Financial Section

**City of Oak Harbor
Island County
January 1, 2007 through December 31, 2007**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2007

Statement of Activities – 2007

Balance Sheet – Governmental Funds – 2007

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – 2007

Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Fund Types – 2007

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2007

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Statement of Cash Flows – Increase (Decrease) in Cash and Cash Equivalents – Proprietary Funds – 2007

Notes to Financial Statements – 2007

City of Oak Harbor
Management Discussion and Analysis
For the Year Ended December 31, 2007

As management of the City of Oak Harbor, we offer readers of the city's financial statements this narrative overview and analysis of the financial activities of the City of Oak Harbor for the fiscal year ended December 31, 2007. This information is provided in an effort to assist the reader in focusing on significant financial events, to provide an overview of the City's financial activity, to identify changes in the City's financial position, to identify deviations from the City's adopted budget, and to identify individual fund issues and concerns. We encourage readers to consider the information presented here in conjunction with additional information presented in the form of financial statements, footnotes, and other data.

Financial Highlights

1. The Government's overall financial condition improved in 2007, as compared to 2006.
2. Total City's net assets on a consolidated basis equal \$103,425,023, representing the net difference between assets and liabilities. This balance is comprised of \$58,379,971 invested in net capital assets, net of related debt, \$14,182,439 in restricted net assets for capital projects, \$953,352 in restricted assets for debt service, and \$29,909,261 in unrestricted net assets.
3. As shown on the Statement of Net Assets, fiscal year December 31, 2007 ended with an Unrestricted Net Asset Balance of 15,631,286 in Governmental Activities. These monies are intended to provide a cushion against significant downturns in revenues and to maintain sufficient working capital and cash flow to meet daily financial needs. Other reserves have been designated by management to address annual budget amendments, furniture and equipment replacement, major building repairs, and future facilities.
4. Total Change in Net Assets from Governmental activities and Business-type activities is \$4,370,961 and \$5,012,873, respectively.

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

Government-wide financial statements.

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

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

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

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

culture and recreation. The business-type activities of the City include water, sewer, solid waste, and storm water utilities, and a Municipal Marina as well.

Fund financial statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Oak Harbor, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

The City of Oak Harbor maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, as the general fund is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the city's full report.

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

Proprietary funds. The City of Oak Harbor maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, Solid Waste, and Storm Drainage Utilities and Municipal Marina. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, central stores, labor pool, technology assets, and for facilities maintenance.

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

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

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

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

non-major governmental funds, and other information related to the individual funds, are presented immediately following the required supplementary information.

Government-wide financial analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Oak Harbor, assets exceeded liabilities by \$103,425,023. The largest portion of the City’s 2007 net assets (56.5 percent) reflects its investment in capital assets (land, buildings, machinery, and equipment), less related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

<u>City of Oak Harbor Net Assets</u>							
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>		
	2007	2006	2007	2006	2007	2006	
<u>Assets</u>							
Current	\$22,471,653	\$31,864,361	\$25,846,896	\$22,975,418	\$48,318,549	\$54,839,779	
Capital Assets	27,414,102	16,721,664	36,591,874	31,076,594	64,005,976	47,798,258	
Total Assets	49,885,755	48,586,025	62,438,770	54,052,012	112,324,525	102,638,037	
<u>Liabilities</u>							
Long-term	1,065,822	3,725,961	4,590,894	1,769,097	5,656,716	5,495,058	
Other	1,706,370	2,117,462	1,536,416	984,328	3,242,786	3,101,790	
Total Liabilities	2,772,192	5,843,423	6,127,310	2,753,425	8,899,502	8,596,848	
<u>Investment in Capital assets</u>							
Net of related debt	26,735,802	20,195,852	31,644,169	32,766,823	58,379,971	52,962,675	
Restricted	4,746,475	7,315,275	10,389,316	740,230	15,135,791	8,055,505	
Unrestricted	15,631,286	15,231,475	14,277,975	17,791,534	29,909,261	33,023,009	
Total Net Assets	\$47,113,563	\$42,742,602	\$56,311,460	\$51,298,587	\$103,425,023	\$94,041,189	

A portion of the City’s 2007 net assets (5.5 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (38.0 percent) may be used to meet the city’s ongoing obligations to citizens and creditors.

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

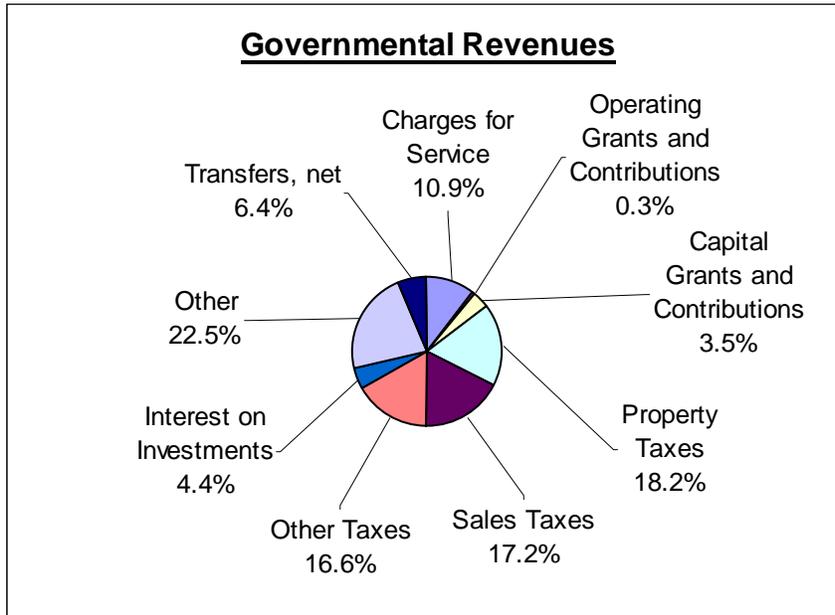
Governmental activities: Governmental activities increased the City of Oak Harbor’s net assets by \$4,370,961, thereby accounting for all of the total growth in the net assets of the City. Key elements of this increase are as follows:

City of Oak Harbor's Change in Net Assets							
	Governmental Activities		Business-type Activities		Totals		
	2007	2006	2007	2006	2007	2006	
Revenues:							
Program Revenue							
Charges for Service	\$ 2,122,822	\$ 2,575,173	\$ 13,239,814	\$ 11,834,610	\$15,362,636	\$14,409,783	
Operating Grants and Contributions	57,184	73,502	48,014	50,348	105,198	123,850	
Capital Grants and Contributions	677,912	612,557	745,421	1,883,198	1,423,333	2,495,755	
General Revenues:							
Property Taxes	3,540,358	3,723,086	0	0	3,540,358	3,723,086	
Sales Taxes	3,352,977	3,565,410	0	0	3,352,977	3,565,410	
Other Taxes	3,239,357	3,225,273	0	0	3,239,357	3,225,273	
Other	5,238,075	9,020,150	3,496,704	(2,159,801)	8,734,779	6,860,349	
Total Revenues	18,228,685	22,795,151	17,529,953	11,608,355	35,758,638	34,403,506	
Expenses:							
General Government	3,581,883	3,815,105	0	0	3,581,883	3,815,105	
Judicial	403,316	36,328	0	0	403,316	36,328	
Public Safety	6,269,227	5,938,403	0	0	6,269,227	5,938,403	
Physical Environment	946,747	780,903	0	0	946,747	780,903	
Transportation	1,088,470	714,217	0	0	1,088,470	714,217	
Human Services	46,268	115,342	0	0	46,268	115,342	
Economic Environment	1,265,338	1,078,735	0	0	1,265,338	1,078,735	
Culture and Recreation	1,367,621	1,675,105	0	0	1,367,621	1,675,105	
Interest on Long Term Debt	127,167	169,947	0	0	127,167	169,947	
Other Governmental Expenses	6,294	0	0	0	6,294	0	
Expenses - Enterprise Activities		0		0			
Water	0	0	3,208,758	2,864,753	3,208,758	2,864,753	
Sewer	0	0	2,722,603	2,799,978	2,722,603	2,799,978	
Solid Waste	0	0	3,364,296	3,210,051	3,364,296	3,210,051	
Storm Drain	0	0	906,671	954,952	906,671	954,952	
Marina	0	0	1,070,145	1,234,768	1,070,145	1,234,768	
Total Expenses	15,102,331	14,324,085	11,272,473	11,064,502	26,374,804	25,388,587	
Increase in Net Assets							
before Transfers	3,126,354	8,471,066	6,257,480	543,853	9,383,834	9,014,919	
Transfers	1,244,607	1,212,829	(1,244,607)	(1,212,829)	0	0	
Increase in Net Assets	4,370,961	9,683,895	5,012,873	(668,976)	9,383,834	9,014,919	
Prior Period Adjustments	0	0	0	0	0	0	
Net Assets 12/31/2006	42,742,602	33,058,707	51,298,587	51,967,563	94,041,189	85,026,270	
Net Assets 12/31/2007	\$47,113,563	\$42,742,602	\$56,311,460	\$51,298,587	\$103,425,023	\$94,041,189	

The Transportation component includes streets, arterials, and other traffic related functions. Revenues exceed expenditures during 2007 as intergovernmental revenues and grants are received in advance of construction project expenditures.

The City's utilities show revenues exceeding expenditures as a number of construction projects budgeted for 2007 were deferred until the City's engineering department is fully staffed.

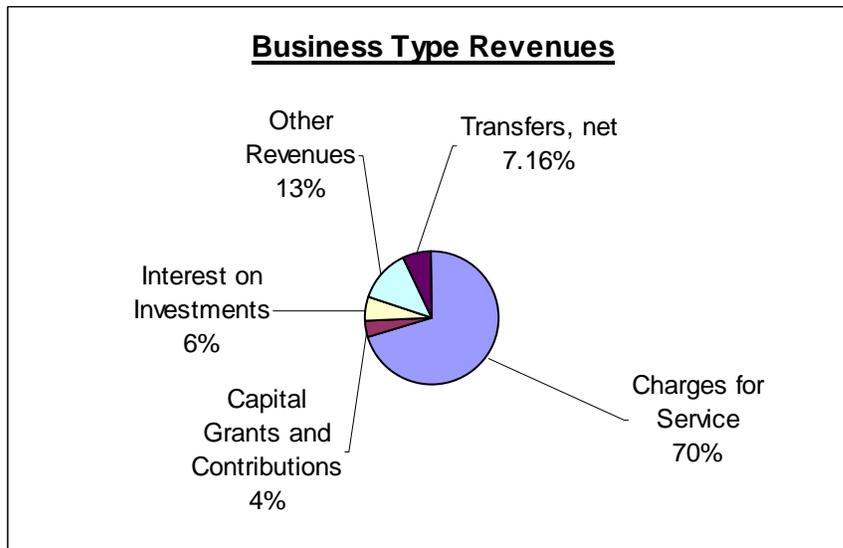
Revenues by Source – Governmental Activities



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

Business-type activities. Business-type activities decreased the City of Oak Harbor’s net assets by \$5,012,873. Key reasons for this increase include:

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



Financial Analysis of the City’s Funds

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

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

As of the end of 2007, the City's governmental funds reported combined ending fund balances of \$16,221,334. Nearly all of this constitutes unreserved fund balance, which is available for spending at the city's discretion. While none of these funds are restricted by legislation or ordinance, portions of the unreserved fund balance are used to pay debt service and for other specific uses.

The general fund is the chief operating fund of the City. At the end of 2007, unreserved fund balance of the general fund was \$6,594,078. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The general fund unreserved fund balance represents 100.0 percent of total General Fund net assets.

The fund balance of the City of Oak Harbor's general fund increased by \$381,443 during 2007. Key factors include:

- The under expenditure of several city programs due to personnel vacancies.
- Efficiencies in labor costs via the reduction of overtime expenditures.
- Continued strength in sales tax revenues.
- Careful monitoring of expenditures and budgetary compliance.

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

General Fund Budgetary Highlights

For 2007, the adopted general fund budget for expenditures, net of ending fund balance, was \$12,586,880, the final budget was \$14,000,367, and the actual expenditures were \$13,306,391. Amendments to the City budget are made for the following purposes:

- Reallocating fund resources between various line items within the General Fund
- Through a joint agreement with Island County and the Department of Defense, the City purchased a parcel of land in order to safeguard the light path pattern of NAS Whidbey Island. The total budgeted cost of the acquisition is \$882,081.
- Actual expenditures for personnel were less than budgeted due to a number of vacancies in employee positions during the year.

Actual revenues were \$643,413 higher than the final budget, or 104.93%. Actual expenditures are \$693,976 below final budget amounts, or 95.04%. See below for explanation.

- ◆ Sales tax revenues exceeded projections by \$166,001.
- ◆ Liquor excise tax and liquor control board profits exceeded budgeted estimates by \$47,333.
- ◆ Investment income exceeded budgeted estimates by \$209,264.

Capital Assets and Debt Administration

Capital Assets. The City of Oak Harbor's investment in non-current and capital assets for its governmental and business type activities as of December 31, 2007, amounts to \$64,005,976 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment and park facilities. The City has completed its inventory and analysis of its roads, highways, and bridges as capital assets of the city.

Capital assets, net of accumulated depreciation, in governmental activities increased from \$24,055,418 in 2006 to \$27,414,102 primarily due to the extension of the Barrington Drive arterial, and the acquisition of land on the north side of the City limits. This land was acquired to prevent commercial development encroachment on the flight pathways of the Whidbey Island Naval Air Station. Capital assets in business-

type activities increased from \$34,766,622 in 2006 to \$36,591,874. This increase is primarily due to upgrades to the City's utility infrastructure, relocation costs incurred moving the City's water line along State Route 20, and to donated capital infrastructure received from developers.

Long-term debt. At the end of 2007, the City of Oak Harbor had total bonded debt outstanding, including PWTF loans, as reflected on the Statement of Net Assets, of \$5,626,005. The City received approximately \$981,045 in additional Public Works Trust Fund Loans to finance the costs of moving the water line along State Route 20.

Economic Factors and the Next Year's Budgets and Rates

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

Slow economy. The local economy has experienced some of the deceleration that other communities have felt since the events of September 11, 2001. On a national level, the effects of this event, combined with the economic impacts of the equity markets on a national level, the costs of energy, and the negative effects of the sub-prime market continue to be apparent. From a local perspective, sales taxes represent a significant revenue component and a barometer of the local economy. Sales tax receipts in 2007 were approximately 3% higher than the previous year. It is anticipated that the City economy will experience a leveling off of revenues from the retailing sectors of general merchandise, automotive sales, eating and drinking establishments, and construction and trade.

The City continues to experience increased demand for single family housing. There remain several undeveloped parcels within the City limits that are scheduled for development over the next 24 to 36 months. This continued construction activity is projected to continue at the same rate. The eventual development will result in increased property tax receipts, however the sales tax receipts as a result of construction will begin to decrease as the inventory of available parcels of property becomes smaller.

Changes in state law. Washington has seen a wave of initiatives and anti-tax measures over the past several years. The most significant changes are the elimination of the motor vehicle excise tax, the elimination of a motor vehicle license fee and the imposition of a one-percent limit to increases in the property tax.

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

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

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

CITY OF OAK HARBOR
Statement of Net Assets
December 31, 2007

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash & cash equivalents	\$ 16,190,291	\$ 21,560,441	\$ 37,750,732
Receivables (net of allowance for uncollectibles)	948,079	1,532,158	2,480,237
Prepays	81,325	8,827	90,152
Inventories	8,266	27,655	35,921
Internal balances	(1,438,764)	1,438,764	-
Due from Other Governments	839,168	23,860	863,028
Bond issue cost (net of accumulated amortization)	-	59,575	59,575
Restricted Assets:			
Restricted cash and cash equivalents	5,843,288	1,195,616	7,038,904
Capital assets not being depreciated:			
Land	6,988,420	1,333,347	8,321,767
Construction in progress	2,668,751	4,212,360	6,881,111
Capital Assets net of accumulated depreciation:			
Buildings and system	8,427,885	1,590,670	10,018,555
Improvements other than buildings	322,228	28,301,171	28,623,399
Machinery and equipment	2,249,690	1,154,326	3,404,016
Infrastructure	6,757,128	-	6,757,128
Total assets	\$ 49,885,755	\$ 62,438,770	\$ 112,324,525
 LIABILITIES			
Accounts payable	\$ 679,628	\$ 737,452	\$ 1,417,080
Accrued interest payable	-	62,876	62,876
Other current liabilities	281,689	142,639	424,328
Deferred revenue	122,871	20,507	143,378
Due within one year			
Bonds payable (net of unamortized premium/discount)	218,300	514,552	732,852
Other long-term liabilities	-	-	-
Compensated absences	403,882	58,390	462,272
Due in more than one year:			
Bonds payable (net of unamortized premium/discount)	460,000	4,433,153	4,893,153
Other long-term liabilities	-	-	-
Compensated absences	605,822	87,584	693,406
Payable from restricted assets	-	70,157	70,157
Total liabilities	\$ 2,772,192	\$ 6,127,310	\$ 8,899,502
 NET ASSETS			
Invested in capital assets, net of related debt	\$ 26,735,802	\$ 31,644,169	\$ 58,379,971
Restricted for:			
Capital Projects	4,746,475	9,435,964	14,182,439
Debt Service	-	953,352	953,352
Other Purposes	-	-	-
Unrestricted	15,631,286	14,277,975	29,909,261
Total net assets	\$ 47,113,563	\$ 56,311,460	\$ 103,425,023

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Activities
For the year ended December 31, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government:							
Government activities:							
General Government	\$ 3,581,883	\$ 66,553	\$ -	\$ 677,912	\$ (2,837,418)	\$ -	\$ (2,837,418)
Judicial	403,316	292,859	-	-	(110,457)	-	(110,457)
Public Safety	6,269,227	85,501	57,184	-	(6,126,542)	-	(6,126,542)
Physical Environment	946,747	15	-	-	(946,732)	-	(946,732)
Transportation	1,088,470	-	-	-	(1,088,470)	-	(1,088,470)
Health and Human Services	46,268	35,298	-	-	(10,970)	-	(10,970)
Economic Environment	1,265,338	1,363,960	-	-	98,622	-	98,622
Culture & Recreation	1,367,621	278,636	-	-	(1,088,985)	-	(1,088,985)
Interest on long-term debt	127,167	-	-	-	(127,167)	-	(127,167)
Other Governmental Expenses	-	-	-	-	-	-	-
Total government activities	\$ 15,096,037	\$ 2,122,822	\$ 57,184	\$ 677,912	\$ (12,238,119)	\$ -	\$ (12,238,119)
Business-type activities:							
Water	\$ 3,208,758	\$ 4,214,996	\$ 322	\$ 187,696	\$ -	\$ 1,194,256	\$ 1,194,256
Sewer	2,722,603	4,143,264	5,353	425,002	-	1,851,016	1,851,016
Solid Waste	3,364,296	3,440,101	15,388	-	-	91,193	91,193
Storm Drain	906,671	1,018,710	25,796	132,723	-	270,558	270,558
Marina	1,070,145	422,743	1,155	-	-	(646,247)	(646,247)
Total business-type activities:	\$ 11,272,473	\$ 13,239,814	\$ 48,014	\$ 745,421	\$ -	\$ 2,760,776	\$ 2,760,776
Total primary government	\$ 26,368,510	\$ 15,362,636	\$ 105,198	\$ 1,423,333	\$ (12,238,119)	\$ 2,760,776	\$ (9,477,343)
General revenues:							
Taxes							
General Property					\$ 3,540,358	\$ -	\$ 3,540,358
Sales					3,352,977	-	3,352,977
Other					3,239,357	-	3,239,357
Total Taxes					\$ 10,132,692	\$ -	\$ 10,132,692
Licenses and Permits					545,281	-	545,281
Grants and contributions not restricted to specific programs					2,494,101	-	2,494,101
Interest and investment earnings					864,109	1,107,317	1,971,426
Miscellaneous & Other Revenues					\$1,334,584	2,395,943	3,730,527
Gain (loss) on sale of capital assets					(6,294)	(6,556)	(12,850)
Transfers in					1,845,063	1,352,642	3,197,705
out					(600,456)	(2,597,249)	(3,197,705)
Total general revenues and transfers					\$ 16,609,080	\$ 2,252,097	\$ 18,861,177
Change in net assets					\$ 4,370,961	\$ 5,012,873	\$ 9,383,834
Net assets—beginning					\$ 42,742,602	\$ 51,298,587	\$ 94,041,189
Net assets—ending					\$ 47,113,563	\$ 56,311,460	\$ 103,425,023

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Balance Sheet
Governmental Funds
December 31, 2007

ASSETS	General Fund	2004 Sewer Bond Construction Fund	Other Governmental Funds	Total Governmental Funds
Cash & Cash Equivalents	\$ 6,426,654	\$ -	\$ 9,581,359	\$ 16,008,013
Restricted Cash	47,800	-	275,529	323,329
Notes Receivable	-	-	-	-
Accounts Receivable	1,638,828	-	313	1,639,141
Less: Allowance for Uncollectibles	(766,561)	-	-	(766,561)
Prepaid Operating Expense	81,325	-	-	81,325
Inventory	-	-	-	-
Due from Other Funds	60,422	-	7,783	68,205
Due from Other Governments	25,530	-	-	25,530
Deferred Charges	-	-	-	-
Taxes Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Amnt to be Provided for LT Debt	-	-	-	-
Deferred Amt on Refunding	-	-	-	-
Deferred Debt Issue Costs	-	-	-	-
Special Assessment	-	-	-	-
Construction in Progress	-	-	-	-
Property, Plant and Equipment	-	-	-	-
Accumulated Depreciation	-	-	-	-
Total Assets	<u>\$ 7,513,998</u>	<u>\$ -</u>	<u>\$ 9,864,984</u>	<u>\$ 17,378,982</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts/Warrants Payable	\$ 227,616	\$ -	\$ 118,165	\$ 345,781
Uncollected Taxes Receivable	-	-	-	-
Current Portion of Contract Payable	-	-	-	-
Due to Other Funds	29,215	-	11,992	41,207
Matured Bonds Payable	-	-	-	-
Matured Interest	-	-	-	-
Deposits Payable	194,433	-	86,113	280,546
Current Bond Principal	-	-	-	-
Accrued Interest Payable	-	-	-	-
Retainage	1,143	-	-	1,143
Bonds Payable, Net	-	-	-	-
Discount on Bonds	-	-	-	-
Accrued Wages, Taxes & Benefits	-	-	-	-
Landfill Closure	-	-	-	-
Deferred Revenue	122,871	-	-	122,871
Capital Leases	-	-	-	-
Dedicated Proceeds	-	-	-	-
Current General Obligation	-	-	-	-
General Obligation Bonds	-	-	-	-
Compensated Absences	344,642	-	21,458	366,100
Other LT Liabilities	-	-	-	-
Total Liabilities	<u>\$ 919,920</u>	<u>\$ -</u>	<u>\$ 237,728</u>	<u>\$ 1,157,648</u>
 Fund Balances:				
Reserved for:				
Debt Service	\$ -	\$ -	\$ -	\$ -
Other Purposes	-	-	-	-
Unreserved, reported in:				
General Fund	6,594,078	-	-	6,594,078
Special Revenue Funds	-	-	4,880,781	4,880,781
Debt Service Funds	-	-	-	-
Capital Projects Fund	-	-	4,746,475	4,746,475
Internal Service Funds	-	-	-	-
TOTAL FUND EQUITY	<u>\$ 6,594,078</u>	<u>\$ -</u>	<u>\$ 9,627,256</u>	<u>\$ 16,221,334</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 7,513,998</u>	<u>\$ -</u>	<u>\$ 9,864,984</u>	

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
December 31, 2007

Total fund balances, governmental funds	\$	16,221,334
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources		22,101,450
Internal service funds are used by management to charge the costs of fleet management and the shop facility to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		9,264,452
Long-term assets not available to pay for current period expenditures and therefore deferred in the funds.		889,140
Some liabilities, including bonds and interest payable, are not due and payable in the current period and therefore are not reported in the funds		(1,227,450)
Other Liabilities such as Compensated Absences that are not due and payable in the current period and therefore are not reported in the funds		(135,363)
Net assets of governmental activities	\$	<u>47,113,563</u>

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
For the year ended December 31, 2007

	General Fund	2004 Sewer Bond Construction Fund	Other Governmental Funds	Total Governmental
REVENUES				
Taxes	\$ 9,145,016	\$ -	\$ 903,337	\$ 10,048,353
Licenses and Permits	536,797	-	8,484	545,281
Intergovernmental Revenues	1,130,804	-	2,080,224	3,211,028
Charges for Service	819,340	-	595,717	1,415,057
Fines and Forfeits	5,715	-	-	5,715
Interest	358,748	-	480,543	839,291
Miscellaneous Revenues	69,775	-	289,261	359,036
Total revenues	<u>\$ 12,066,195</u>	<u>\$ -</u>	<u>\$ 4,357,566</u>	<u>\$ 16,423,761</u>
EXPENDITURES				
Current operating:				
General Government	\$ 2,293,183	\$ -	\$ -	\$ 2,293,183
Judicial	398,264	-	-	398,264
Public Safety	6,045,417	-	-	6,045,417
Physical Environment	900,896	-	-	900,896
Transportation	-	-	918,672	918,672
Economic Environment	718,817	-	546,437	1,265,254
Mental & Physical Health	40,543	-	-	40,543
Culture & Recreation	1,160,295	-	116,548	1,276,843
Debt Service:				
Principal	-	110,000	226,267	336,267
Interest	-	68,748	51,130	119,878
Other	-	-	-	-
Capital Outlay	1,133,384	-	3,045,621	4,179,005
Total expenditures	<u>\$ 12,690,799</u>	<u>\$ 178,748</u>	<u>\$ 4,904,675</u>	<u>\$ 17,774,222</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (624,604)</u>	<u>\$ (178,748)</u>	<u>\$ (547,109)</u>	<u>\$ (1,350,461)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 1,621,639	177,603	\$ 1,193,260	2,992,502
Transfers Out	(615,592)	(2,862,204)	(921,257)	(4,399,053)
Other Sources	-	-	-	-
Sale of General Fixed Assets	-	-	-	-
Other Sources	-	-	-	-
Other uses	-	-	-	-
Total other financing sources (uses)	<u>\$ 1,006,047</u>	<u>\$ (2,684,601)</u>	<u>\$ 272,003</u>	<u>\$ (1,406,551)</u>
Net change in fund balance	<u>\$ 381,443</u>	<u>\$ (2,863,349)</u>	<u>\$ (275,106)</u>	<u>\$ (2,757,012)</u>
Fund balances - beginning	\$ 6,212,637	\$ 2,863,349	\$ 9,902,362	\$ 18,978,348
Prior Period Adjustments	-	-	-	-
Fund balances - ending	<u>\$ 6,594,080</u>	<u>\$ -</u>	<u>\$ 9,627,256</u>	<u>\$ 16,221,336</u>

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the year ended December 31, 2007

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

Net change in fund balances - total governmental funds	\$ (2,757,012)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	3,497,891
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	102,606
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	2,994,128
Internal Service Funds are used by the City to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The net costs of the internal service funds are reported with the governmental activities in the Statement of Activities.	533,348
Change in net assets of governmental activities	<u><u>\$ 4,370,961</u></u>

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET vs ACTUAL
GENERAL FUND
For the Biennium Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
REVENUES:				
Taxes	\$ 8,844,184	\$ 8,844,184	\$ 9,145,016	\$ 300,832
Licenses and Permits	434,905	434,905	536,797	101,892
Intergovernmental Revenues	506,557	1,238,598	1,130,804	(107,794)
Charges for Service	528,000	528,000	819,340	291,340
Fines and Forfeits	150,000	150,000	5,715	(144,285)
Investment Interest	141,500	141,500	358,748	217,248
Other Revenues	76,100	76,100	69,775	(6,325)
Total revenues	<u>\$ 10,681,246</u>	<u>\$ 11,413,287</u>	<u>\$ 12,066,195</u>	<u>\$ 652,908</u>
EXPENDITURES:				
Current:				
General Government	\$ 2,354,970	\$ 2,392,770	\$ 2,293,183	\$ 99,587
Judicial	392,030	392,030	398,264	(6,234)
Public Safety	6,330,577	6,427,359	6,045,417	381,942
Physical Environment	867,896	1,017,896	900,896	117,000
Transportation	-	-	-	-
Economic Environment	747,989	796,005	718,817	77,188
Mental & Physical Health	7,400	7,400	40,543	(33,143)
Culture & Recreation	1,141,813	1,152,713	1,160,295	(7,582)
Capital Outlay	147,150	1,207,629	1,133,384	74,245
Total expenditures	<u>\$ 11,989,825</u>	<u>\$ 13,393,802</u>	<u>\$ 12,690,799</u>	<u>\$ 703,003</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,308,579)</u>	<u>\$ (1,980,515)</u>	<u>\$ (624,604)</u>	<u>\$ 1,355,911</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 1,631,134	\$ 1,631,134	\$ 1,621,639	\$ (9,495)
Transfers Out	(597,055)	(606,565)	(615,592)	(9,027)
Sale of General Fixed Assets	-	-	-	-
Other Sources	-	-	-	-
Other Uses	-	-	-	-
Total other financing sources (uses)	<u>\$ 1,034,079</u>	<u>\$ 1,024,569</u>	<u>\$ 1,006,047</u>	<u>\$ (18,522)</u>
Net change in fund balance	<u>\$ (274,500)</u>	<u>\$ (955,946)</u>	<u>\$ 381,443</u>	<u>\$ 1,337,389</u>
FUND BALANCES AT BEGINNING OF YEAR	\$ 2,365,521	\$ 2,365,521	\$ 6,212,637	\$ 3,847,116
Prior Period Adjustments	-	-	-	-
FUND BALANCES AT END OF YEAR	<u>\$ 2,091,021</u>	<u>\$ 1,409,575</u>	<u>\$ 6,594,080</u>	<u>\$ 5,184,505</u>

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Net Assets
PROPRIETARY FUNDS
December 31, 2007

	Business-type Activities Enterprise Funds						Governmental
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste	Storm Drain and Storm Reserve Fund	Marina	Totals	Internal Service Funds
ASSETS							
Current assets:							
Cash & cash equivalents	\$ 8,712,537	\$ 9,705,434	\$ 1,848,428	\$ 515,980	\$ 778,062	\$ 21,560,441	\$ 182,278
Receivables (Net)	440,722	516,534	417,995	142,374	14,533	1,532,158	-
Prepays	-	3,842	-	-	4,985	8,827	-
Inventories	-	-	-	-	27,655	27,655	8,266
Due from Other Funds	8,456	3,134	1,987	9,955	-	23,532	-
Due from Other Governments	-	-	14,634	435	8,791	23,860	-
Bond issue cost (net of accumulated amortization)	-	59,575	-	-	-	59,575	-
Total Current Assets	\$ 9,161,715	\$ 10,288,519	\$ 2,283,044	\$ 668,744	\$ 834,026	\$ 23,236,048	\$ 190,544
Noncurrent assets:							
Restricted cash	\$ 464,458	\$ 593,122	\$ 77,654	\$ -	\$ 60,382	\$ 1,195,616	\$ 5,519,959
Capital assets not being depreciated:							
Land	99,589	4,200	201,810	-	1,027,748	1,333,347	-
Construction in progress	-	3,986,071	-	-	226,289	4,212,360	34,147
Capital Assets net of accumulated depreciation:							
Buildings and system	328,416	712,948	-	-	549,306	1,590,670	3,722,116
Improvements other than buildings	11,871,183	14,021,095	135,194	1,120,903	1,152,796	28,301,171	322,228
Machinery and equipment	633,784	375,933	117,194	4,832	22,583	1,154,326	1,234,160
Infrastructure	-	-	-	-	-	-	-
Total Noncurrent Assets	\$ 13,397,430	\$ 19,693,369	\$ 531,852	\$ 1,125,735	\$ 3,039,104	\$ 37,787,490	\$ 10,832,610
Total assets	\$ 22,559,145	\$ 29,981,888	\$ 2,814,896	\$ 1,794,479	\$ 3,873,130	\$ 61,023,538	\$ 11,023,154
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 174,288	\$ 376,882	\$ 126,122	\$ 11,977	\$ 48,183	\$ 737,452	\$ 198,484
Due to Other Funds	11,347	12,368	4,721	2,128	6,663	37,227	13,304
Deposits	22,300	-	7,497	48,000	60,382	138,179	-
Bonds, notes and loans payable	84,552	430,000	-	-	-	514,552	-
Compensated absences	21,176	4,113	8,649	20,061	4,391	58,390	37,782
Interest Payable	1,892	60,984	-	-	-	62,876	-
Retainage	-	4,460	-	-	-	4,460	-
Dedicated Proceeds	-	-	-	-	-	-	-
Deferred revenue	15,467	5,040	-	-	-	20,507	-
Total Current Liabilities	\$ 331,022	\$ 893,847	\$ 146,989	\$ 82,166	\$ 119,619	\$ 1,573,643	\$ 249,570
Noncurrent liabilities:							
Bonds Payable, Net	\$ 938,985	\$ 3,495,000	\$ -	\$ -	\$ -	\$ 4,433,985	\$ -
Discount on Bonds	-	(832)	-	-	-	(832)	-
Accrued Wages, Taxes & Benefits	-	-	-	-	-	-	-
Landfill Closure	-	-	70,157	-	-	70,157	-
Compensated absences	31,764	6,170	12,973	30,091	6,586	87,584	56,672
Total Noncurrent Liabilities	\$ 970,749	\$ 3,500,338	\$ 83,130	\$ 30,091	\$ 6,586	\$ 4,590,894	\$ 56,672
Total liabilities	\$ 1,301,771	\$ 4,394,185	\$ 230,119	\$ 112,257	\$ 126,205	\$ 6,164,537	\$ 306,242
NET ASSETS							
Invested in capital assets, net of related debt	\$ 11,909,435	\$ 15,175,247	\$ 454,198	\$ 1,125,735	\$ 2,978,722	\$ 31,643,337	\$ 5,312,651
Restricted for:							
Capital Projects	4,890,922	4,161,064	110,465	273,513	-	9,435,964	-
Debt Service	360,237	593,122	-	-	-	953,359	-
Unrestricted	\$ 4,096,780	\$ 5,658,270	\$ 2,020,114	\$ 282,974	\$ 768,203	\$ 12,826,341	\$ 5,404,261
Total net assets	\$ 21,257,374	\$ 25,587,703	\$ 2,584,777	\$ 1,682,222	\$ 3,746,925	\$ 54,859,001	\$ 10,716,912

Some amounts reported for business-type activities in the statement of net assets are different because: balance in business-type activities:	\$ 54,859,001
Adjustments to reflect consolidation of internal service fund activities related to enterprise funds	1,452,458
Net assets of business type activities	<u>\$ 56,311,459</u>

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities Enterprise Funds							Totals	Internal Service Funds
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste Fund	Storm Drain and Storm Reserve Fund	Marina				
OPERATING REVENUES:									
Charges For Service	\$ 3,523,796	\$ 3,687,052	\$ 3,127,112	\$ 919,004	\$ 405,692	\$ 11,662,656	\$ 1,445,011		
System Development Revenue	529,936	309,977	-	-	-	839,913	-		
Other Operating Revenues	56,574	12,521	23,480	31,592	888,039	1,012,206	1,975,495		
Total Operating Revenues	\$ 4,110,306	\$ 4,009,550	\$ 3,150,592	\$ 950,596	\$ 1,293,731	\$ 13,514,775	\$ 3,420,506		
OPERATING EXPENSES:									
Cost of Sales and Service	\$ 1,708,417	\$ 773,403	\$ 827,626	\$ 449,179	\$ 617,354	\$ 4,375,979	\$ 1,630,105		
Contractual Services	27,315	186,445	56,181	32,876	22,967	325,784	25,609		
Utilities	25,150	234,928	1,150,050	7,130	92,789	1,510,047	69,778		
Taxes	381,300	290,947	340,276	68,876	-	1,081,399	-		
Repairs & Maintenance	98,308	132,462	321,359	61,106	38,120	651,355	164,942		
Other Operating Expenses	60,923	60,455	14,012	23,080	28,117	186,587	10,631		
Insurance Claims & Expenses	16,558	31,447	16,889	-	31,166	96,060	45,534		
Depreciation	592,787	614,814	65,742	82,156	208,465	1,563,964	680,072		
Total Operating Expenses	\$ 2,910,758	\$ 2,324,901	\$ 2,792,135	\$ 724,403	\$ 1,038,978	\$ 9,791,175	\$ 2,626,671		
Operating Income (Loss)	\$ 1,199,548	\$ 1,684,649	\$ 358,457	\$ 226,193	\$ 254,753	\$ 3,723,600	\$ 793,835		
Nonoperating Revenues (Expenses):									
Interest Income	\$ 391,590	\$ 497,394	\$ 126,651	\$ 31,859	\$ 33,971	\$ 1,081,465	\$ 50,670		
Other Non-Operating Revenues	375,378	30,173	-	-	16,077	421,628	4,360		
Gain (Loss) On Sale of Fixed Assets	-	-	-	-	-	-	(12,850)		
Interest Expense	(3,202)	(130,376)	-	-	-	(133,578)	(14,882)		
Other Non-Operating Expenses	-	-	-	-	-	-	-		
Total Nonoperating Revenues (Expenses)	\$ 763,766	\$ 397,191	\$ 126,651	\$ 31,859	\$ 50,048	\$ 1,369,515	\$ 27,298		
Net Income (Loss) Before contributions and Transfers	\$ 1,963,314	\$ 2,081,840	\$ 485,108	\$ 258,052	\$ 304,801	\$ 5,093,115	\$ 821,133		
Capital Contributions and Adjustments	187,696	425,002	-	132,723	-	745,421	-		
Transfers In	117,000	342,204	-	25,000	-	484,204	557,923		
Transfers Out	(646,871)	(664,067)	(238,589)	(315,902)	-	(1,865,429)	(290,146)		
Change in Net Assets	\$ 1,621,139	\$ 2,184,979	\$ 246,519	\$ 99,873	\$ 304,801	\$ 4,457,311	\$ 1,088,910		
Net Assets - Beginning	\$ 19,636,236	\$ 23,402,725	\$ 2,338,260	\$ 1,582,350	\$ 3,442,124	\$ 50,401,695	\$ 9,628,002		
Prior Period Adjustments	-	-	-	-	-	-	-		
Net Assets - Ending	\$ 21,257,375	\$ 25,587,704	\$ 2,584,779	\$ 1,682,223	\$ 3,746,925	\$ 54,859,006	\$ 10,716,912		

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

\$ 4,457,311
555,562
\$ 5,012,873

The accompanying notes are an integral part of this statement.

CITY OF OAK HARBOR
Statement of Cash Flows
Increase (Decrease) In Cash and Cash Equivalents
Proprietary Funds
For the Year Ended December 31, 2007

	Business Type Activities						Internal Service Funds
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste	Storm Drain and Storm Reserve Fund	Marina	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers and Users	\$ 4,026,310	\$ 4,362,568	\$ 3,172,343	\$ 1,002,037	\$ 1,275,757	\$ 13,839,015	\$ -
Receipts from Interfund Services Provided	-	-	-	-	-	-	3,439,181
Payments to Suppliers	(2,317,971)	(1,710,087)	(2,726,393)	(642,247)	(830,513)	(8,227,211)	-
Payments to Employees	-	-	-	-	-	-	-
Payments for Interfund Services Used	-	-	-	-	-	-	(1,946,599)
Net Cash Provided by Operating Activities:	\$ 1,708,339	\$ 2,652,481	\$ 445,950	\$ 359,790	\$ 445,244	\$ 5,611,804	\$ 1,492,582
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers to Other Funds	\$ (529,871)	\$ (321,863)	\$ (238,589)	\$ (290,902)	\$ -	\$ (1,381,225)	\$ 267,777
Advances from Other Funds	-	-	-	-	-	-	-
Payments to Other Funds	-	-	-	-	-	-	-
Receipts from Miscellaneous Revenues	375,378	30,173	-	-	16,077	421,628	4,360
Receipts from Other Funds	-	-	-	-	-	-	-
Non-Operating Expenses	-	-	-	-	-	-	-
Contributions/Deposits	4,318	(19,687)	1,997	48,000	(1,696)	32,932	-
Receipt for Taxes	-	-	-	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (150,175)	\$ (311,377)	\$ (236,592)	\$ (242,902)	\$ 14,381	\$ (926,665)	\$ 272,137
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from Capital Debt	\$ 732,725	\$ 2,520,000	\$ -	\$ -	\$ -	\$ 3,252,725	\$ -
Purchases of Capital Assets	(905,190)	(2,118,393)	(6,622)	(132,722)	(226,289)	(3,389,216)	(540,864)
Principal Paid on Capital Debt	-	(305,000)	-	-	-	(305,000)	(325,000)
Interest Paid on Capital Debt	(3,202)	(188,517)	-	-	-	(191,719)	6,839
Prior Period Adjustments	-	-	-	-	-	-	-
Debt Issue Costs	-	-	-	-	-	-	(14,882)
Contributed Capital Assets	187,696	425,002	-	132,723	-	745,421	-
Proceeds from Sales of Capital Assets	-	-	-	-	-	-	(12,850)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ 12,029	\$ 333,092	\$ (6,622)	\$ 1	\$ (226,289)	\$ 112,211	\$ (886,757)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest and Dividends Received	\$ 391,590	\$ 497,394	\$ 126,651	\$ 31,859	\$ 33,971	\$ 1,081,465	\$ 50,670
Net Cash Provided (Used) by Investing Activities	\$ 391,590	\$ 497,394	\$ 126,651	\$ 31,859	\$ 33,971	\$ 1,081,465	\$ 50,670
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,961,783	\$ 3,171,590	\$ 329,387	\$ 148,748	\$ 267,307	\$ 5,878,815	\$ 928,632
Cash and Cash Equivalents, January 1	\$ 7,215,212	\$ 7,126,966	\$ 1,596,695	\$ 367,231	\$ 571,139	\$ 16,877,243	\$ 4,773,605
Cash and Cash Equivalents, December 31	\$ 9,176,995	\$ 10,298,556	\$ 1,926,082	\$ 515,979	\$ 838,446	\$ 22,756,058	\$ 5,702,237
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ 1,199,548	\$ 1,684,649	\$ 358,457	\$ 226,193	\$ 254,753	\$ 3,723,600	\$ 793,835
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation expense	592,787	614,814	65,742	82,156	208,465	1,563,964	680,072
(Increase) decrease in accounts receivable	(26,500)	3,338	(25,712)	4,492	(93)	(44,475)	-
(Increase) decrease in due from other funds	151,954	243,879	17,773	43,163	1,071	457,840	18,532
(Increase) decrease in due from other governments	-	-	(14,634)	1,765	(8,791)	(21,660)	-
(Increase) decrease in inventories	-	-	-	-	(27,655)	(27,655)	(2,717)
(Increase) decrease in prepaids	-	(406)	-	-	31,769	31,363	-
	(16,707)	4,460	-	-	-	(12,247)	-
Increase (decrease) in accounts payable	(27,949)	337,990	59,133	(3,490)	7,163	372,847	132,770
Increase (decrease) in compensated absences payable	(1,081)	297	543	2,569	362	2,690	3,761
Increase (decrease) in accrued interest	1,165	27,768	-	-	-	28,933	(731)
Increase (decrease) in accrued wages & benefits	-	-	-	-	-	-	-
Increase (decrease) in landfill closure	-	-	-	-	-	-	-
Increase (decrease) in deferred revenue	(1,533)	(1,680)	-	-	-	(3,213)	-
Increase (decrease) in long-term liabilities	(1,621)	447	814	3,854	543	4,037	5,640
Increase (decrease) in due to other funds	(161,724)	(263,075)	(16,166)	(912)	(22,343)	(464,220)	(138,580)
Prior Period Adjustments	-	-	-	-	-	-	-
Total Adjustments	\$ 508,791	\$ 967,832	\$ 87,493	\$ 133,597	\$ 190,491	\$ 1,888,204	\$ 698,747
Net Cash Provided (Used) by Operating Activities	\$ 1,708,339	\$ 2,652,481	\$ 445,950	\$ 359,790	\$ 445,244	\$ 5,611,804	\$ 1,492,582
Noncash Activities:							
Contributions and Adjustments of Capital Assets from Developer Construction	\$ 187,696	\$ 425,002	\$ -	\$ 132,723	\$ -	\$ 745,421	\$ -

The accompanying notes are an integral part of this statement.

City of Oak Harbor
Notes to Financial Statements
January 1, 2007 through December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The City of Oak Harbor was incorporated on May 14, 1915 and operates under the laws of the state of Washington applicable to an optional code city with a Mayor-Council form of government. The governing body consists of eight elected officials, the mayor and seven council members. The mayor and council members are each elected to serve a four-year term. The City Manager administers policies and coordinates the activities of the City. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager.

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

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

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

BASIC FINANCIAL STATEMENTS

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

Basis of Presentation

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

The new GASB 34 model sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. For 2007, the City reports the General Fund, the 2004 Sewer Bond Construction Fund, and all Proprietary Funds as major funds. Non-major funds are combined in a column in the fund financial statements.

General Fund

This is the City's primary operating fund. It accounts for all the financial operations of the City except those that are required to be accounted for in another fund. Principal sources of revenue are property taxes, licenses and permits, state and county shared revenues and charges for administrative services from other funds. Primary expenditures are for general government, police and fire protection and culture and recreation.

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

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

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

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

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

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

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

The *Cumulative Street Reserve Fund #110* reserves matching funds for grant requirements.

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

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

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

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

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

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

1998 \$250,000 Limited Tax General Obligation Bond - Fire Equipment Fund accounts for the debt service on the City's Fire Station constructed in 1991 and 1992. (See *1996 Public Safety and Fire UTGO Refunding Bond*)

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

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

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

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

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

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

The *2004 Sewer Bond Construction Fund #362* is for the purpose of accumulating bond proceeds and other funding sources to remove sludge from and repair damage to the City's Seaplane Base sewer lagoon. In addition, this fund will be used to account for various sewer fund related capital construction projects. During 2007, the City transferred the remaining balances in this fund to Fund #402 Sewer Fund as the project is complete and all remaining assets and liabilities will be utilized to retire the outstanding bond issue as it matures.

Proprietary Funds

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

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

- *Enterprise Funds* operate in a manner similar to private business enterprises where the intent is to provide goods or services to the general public and be reimbursed primarily through user charges. An enterprise fund may also be established when the governing body decides that periodic determination of net income is needed.
- *Internal Service Funds* account for operations that provide goods or services to other departments or funds of the city on a cost-reimbursement basis.

The City reports the following enterprise funds:

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

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

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

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

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

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

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

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

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

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

The City does not currently have any Trust or Agency Funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

A deferred revenue liability arises in the Governmental Funds Balance Sheet when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* deferred revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Net Assets, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned

regardless of its availability. Thus, the liability created on the Governmental Fund Balance Sheet for unavailable deferred revenue is eliminated. Note that deferred revenues also arise outside the scope of measurement focus and basis of accounting, such as when the City receives resources before it has a legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water, Sewer, Solid Waste, Storm Water and Marina Funds are charges to customers for sales and services. The Water, Sewer and Storm Water Funds also recognize fees intended to recover the cost of connecting new customers to the City's utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

BUDGETARY INFORMATION

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

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

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

Procedures for Adopting the Original Budget

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

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

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

Mid-Biennial Review and Modification

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

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

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

Amending the Budget

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

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

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

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

Deficit Fund Equity

As of December 31, 2007, the City has one fund reflecting a deficit fund balance. Fund #501 Equipment Repair Fund shows a negative balance of \$51,718. This deficit is due to the timing of billings processed to other internal departments. The City anticipates this deficit fund balance will be reversed early in 2008.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

It is the City's policy to invest all temporary cash surpluses. As of December 31, 2007, the treasurer was holding \$37,750,732 in short-term residual investments of surplus cash. This amount is included in the amount classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds based upon the fund's average daily cash balance. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and investments. Investments for the City as well as for its component unit are reported at fair value, based on the fair market value at fiscal year end. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. Investments are reported separately on the balance sheet. For purposes of the statement of cash flows, the City considers cash on hand, the state investment pools, and investments to be cash equivalents. Excess cash balances of all City funds are pooled and invested.

Receivables

Taxes receivable consists of property taxes and related interest and penalties (see Property Taxes Note No. 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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

Amounts Due to and from Other Funds and Governmental Units, Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." A separate schedule of interfund loans receivable and payable is furnished in Note No. 15 (Interfund Balances and Transfers Note No. 15).

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

Inventories

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

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

Restricted Assets and Liabilities

These accounts contain resources for debt service, landfill closure requirements, a 24" waterline reserve, and certain customer deposits. Specific debt service reserve requirements are described in Note No. 10 (Long-Term Debt).

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

	<u>Governmental</u>	<u>Business-type</u>
Debt Service	\$0	\$953,352
Designated Reserves	164,727	172,107
Equipment Replacement	5,519,959	0
Fire Impact Fees	47,800	0
Landfill Closure Reserves	0	70,157
Park Impact Fees (Neighborhood)	110,802	0
Total Restricted Cash	<u>\$5,843,288</u>	<u>\$1,195,616</u>

Capital Assets

The City of Oak Harbor has chosen to capitalize and report all of its general infrastructure assets that have been acquired (purchased, constructed and donated) in the year 2002 statements rather than phase in the assets. The City implemented accounting of all it's infrastructure retroactively and is depreciating the assets using the traditional straight-line method. Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, pathways, street lights, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. In governmental and similar trust funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in the General Long-Term Debt Account Group. In proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

City employees accumulate vacation and sick leave on a monthly basis. Employees earn vacation at a rate of a certain number of hours per year. The number of hours per year depends upon length of service. Annual vacation may be accumulated to a maximum of two years accrual. Sick leave for all employees is earned at a rate of one day per month. A maximum of 180 days sick leave may be accumulated.

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

Long-Term Debt (See Long-Term Debt Note No. 10)

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

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

Deferred Revenues

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

Fund Reserves and Designations

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

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

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

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$22,101,450
Internal service funds are used by management to charge the costs of certain activities. The assets and liabilities of these funds are included in the governmental activities in the Statement of Net Assets.	\$9,264,452
Long-term debts are not due and payable in the current period and therefore are not reported in the funds.	\$(1,227,450)
Other assets are not available to pay current expenditures and therefore not reported in the funds.	\$889,140
Other liabilities that are not due and payable in the current period and are not reported in the funds.	\$(135,363)

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

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

Net Increase in capitalized assets exceeding depreciation	\$3,497,890
Revenues that do not provide current financial resources	\$ 102,607
Some expenses that do not require the use of current financial resources	\$2,994,128
Net revenues of certain activities of internal service funds are reported with governmental activities	\$ 533,348

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Two of the City's funds appear to have exceeded their authorized appropriation authority for 2007. It is the City's policy to not establish budget authority for depreciation of assets due to depreciation being a non-cash expenditure. Accordingly, the Shop Facility Fund #510 appears to have expenditures in excess of budget authority in the amount of \$14,131 due to a depreciation charge of \$93,028. In addition, the Technology Reserve Fund #505 appears to have expenditures in excess of budget authority in the amount of \$30,966 due to a depreciation charge of \$30,966. In addition, the LID – Scenic Heights #2003-01 Fund #361 reflects expenditures in excess of budget authority due to an operating transfer out in the amount of \$7,454. This transfer is a result of permanently closing the fund and moving the remaining cash of \$7,454 to the General Fund #001. Finally, the Sewer Bond Construction Fund #362 appears to have expenditures in excess of budget authority in the amount of \$239,491. This is a result of an operating transfer out of \$2,862,204 which effectively transfers the economic interest of this fund to the Sewer Fund #402. The final method of equity transfer was not booked until after the December 31, 2007 closing date.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Notes

Investments	\$ 33,929,286
Deposits	10,860,350
Total	<u>\$ 44,789,636</u>

Financial Statements

Governmental Funds - Cash and Cash Equivalents	\$ 16,008,013
Governmental Funds - Restricted Cash	323,329
Business-type Funds - Cash and Cash Equivalents	21,560,441
Business-type Funds - Restricted Cash	1,195,616
Internal Service Funds - Cash and Cash Equivalents	182,278
Internal Service Funds - Restricted Cash	5,519,959
Total	<u>\$ 44,789,636</u>

Deposits

On December 31, 2007 the carrying amount of the City's cash demand deposits, including money market accounts was \$10,860,350 and the bank balance with US Bank of Washington was \$11,264,652. Petty cash on hand totaled \$7,634. The FDIC insures the first \$100,000 of the City's demand deposits and separately insures the first \$100,000 in the aggregate of the City's time deposits and savings deposits. The remaining deposit balances are insured by the Washington Public Deposit Protection Commission (WPDPC) Act of 1969. The WPDPC is a multiple financial institution collateral pool. State statute permits additional amounts to be assessed on a pro rata basis to members of the pool in the event the pool's collateral should be insufficient to cover a loss.

Investments

The City has \$20,171,529 in the State's Local Government Investment Pool (LGIP) which is managed by the Washington State Treasurer's Office. The LGIP is not SEC registered but has oversight provided by the following sources: 1) annually audited by the Office of the State Auditor; 2) annually audited by an outside, independent auditor; 3) an Advisory Committee meets quarterly to advise the State Treasurer on issues regarding the LGIP; 4) monthly statement enclosures detailing portfolio breakdown and earnings information sent to participants; and, 5) quarterly newsletters that include a compliance report and quarterly financials. Financial reports are available at the State Treasurers Office, P.O. Box 40200, Olympia, Washington, 98504-2000.

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

Investments are reported within Cash and Investments of Governmental Activities and within Cash and Cash Equivalents or Investments of Business-type Activities. As of December 31, 2007, the City had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>
Washington State Investment Pool (LGIP)	\$ 20,171,529	0.97
Federal National Mortgage Association	1,975,800	0.68
Federal Home Loan Mortgage Corp.	4,964,920	2.47
Federal Home Loan Bank	4,810,437	1.54
Federal Farm Credit Bank	<u>2,006,600</u>	<u>1.25</u>
Total Fair Value	<u>\$ 33,929,286</u>	
Portfolio Weighted Average Maturity		<u>6.91</u>

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

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

To limit risk, state law does not allow general governments such as the City to invest in corporate debt. However, the Pension Fund is not restricted by state law to invest in corporate debt with ratings equivalent or above the single "A" rating by nationally recognized statistical rating organizations. The ratings of debt securities as of December 31, 2007 are:

Debt Security	S&P Rating
Fannie Mae (Federal National Mortgage Association)	AAA
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA
Federal Home Loan Bank	AAA
Federal Farm Credit Bank	AAA

Concentration of credit risk: City of Oak Harbor diversifies its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, the City's investment policy does not allow for an investment in any one issuer that is in excess of 50% of the City's total investment portfolio.

Custodial credit risk-investments: This is the risk that, in event of a failure of the counterparty to an investment transaction, the City would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of December 31, 2007, the City did not have any investments that are subject to the custodial credit risk.

NOTE 5 - PROPERTY TAXES

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

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

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

The City is permitted by law to levy up to \$3.60 minus the Sno-Isle Library rate of \$.35 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

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

The City's regular levy for 2007 was \$1.97 per \$1,000 on an assessed valuation of \$1,695,153,087 for a regular levy of \$3,334,863.

The City's General Obligation bond levy for 2007 was \$0.15 per \$1,000 on an assessed valuation of \$1,683,391,858 (\$1,695,153,087 with a senior citizen exemption of \$11,761,229) for a total bond levy of \$244,690.

The City's total 2007 levy, net of adjustments and prior year corrections was \$3,579,553.

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, pathways, street lights, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In the governmental fund statements, capital assets are charged to expenditures as purchased, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than five years. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided using the straight-line method over the following estimated useful lives:

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

Capital assets activity for Governmental Types for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u> <u>1/1/2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u> <u>12/31/2007</u>
Governmental Type Activities:				
Capital assets not being depreciated:				
Land	\$941,464	\$883,301	\$ -	\$1,824,765
Recreation Areas	5,157,121	6,534	-	5,163,655
Construction in Progress	1,235,169	2,873,161	(1,439,579)	2,668,751
Total Assets Not Depreciated:	\$7,333,754	\$3,762,996	(\$1,439,579)	\$9,657,171
Assets Depreciated:				
Buildings	\$12,591,168	\$131,726	-	\$12,722,894
Capital Lease	138,572	-	-	138,572
Machinery & Equipment	8,663,755	646,845	(73,725)	9,236,875
Other Improvements	374,979	-	-	374,979
Infrastructure	21,892,893	1,829,745	-	23,722,638
Total Assets Depreciated:	\$43,661,367	\$2,608,316	(\$73,725)	\$46,195,958
Depreciation:				
Buildings Depreciation	(\$4,034,984)	(\$260,025)	\$ -	(\$4,295,009)
Capital Lease Depreciation	(115,475)	(23,097)	-	(138,572)
Improvements Depreciation	(34,002)	(18,749)	-	(52,751)
Machinery & Equip Depreciation	(6,222,165)	(685,209)	(79,811)	(6,987,185)
Infrastructure Depreciation	(16,533,077)	(432,433)	-	(16,965,510)
Total Depreciation:	(\$26,939,703)	(\$1,419,513)	(\$79,811)	(\$28,439,027)
Total Assets Depreciated (Net):	\$16,721,664	\$1,188,803	(\$153,536)	\$17,756,931
Governmental Activities Total				
Capital Assets (Net):	\$24,055,418	\$4,951,799	(\$1,593,115)	\$27,414,102

Capital assets activity for Business Types for the year ended December 31, 2007 was as follows:

Business Type Activities:	Beginning Balance 1/1/2007	Increases	Decreases	Ending Balance 12/31/2007
Capital assets not being depreciated:				
Land	\$1,333,347	\$ -	\$ -	\$1,333,347
Construction in progress	2,356,683	1,855,677	-	4,212,360
Total capital assets not depreciated	\$3,690,030	\$1,855,677	\$ -	\$5,545,707
Capital assets being depreciated:				
Buildings	\$4,264,152	\$ -	\$ -	\$4,264,152
Improvements other than buildings	43,679,045	1,318,396	-	44,997,441
Machinery and equipment	2,566,080	215,143	-	2,781,223
Total capital assets being depreciated	\$50,509,277	\$1,533,539	\$ -	\$52,042,816
Less accumulated depreciation for:				
Buildings	(\$2,552,167)	(\$121,315)	\$ -	(\$2,673,482)
Improvements other than buildings	-15,419,372	-1,276,898	-	-16,696,270
Machinery and equipment	-1,461,146	-165,751	-	-1,626,897
Total accumulated depreciation	(\$19,432,685)	(\$1,563,964)	\$ -	(\$20,996,649)
Total capital assets being depreciated, net	\$31,076,592	(\$30,425)	\$ -	\$31,046,167
Business activities capital assets, net	\$34,766,622	\$1,825,252	\$ -	\$36,591,874

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

Governmental activities:	
General governmental	\$57,268
Public safety	147,805
PW/Engineer/Transportation	446,225
Cultural and recreational	88,143
Internal service fund capital assets are charged to the various functions based on their usage of the assets	680,072
Total depreciation expense - governmental activities	\$1,419,513
Business-type activities:	
Water	\$592,787
Sewer	614,814
Solid Waste	65,742
Storm Drain	82,156
Marina	208,465
Total depreciation expense - business-type activities	\$1,563,964

NOTE 7 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual

financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and plan 3 is a defined benefit plan with a defined contribution component. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. This option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of- living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003.

Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-vested	49,812
Total	250,838

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3 employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%	6.13%	6.13% **
Employee	6.00%	4.15%	***

- * The employer rates include the employer administrative expense fee currently set at 0.16%.
- ** Plan 3 defined benefit portion only.
- *** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$19,598.89	\$306,796.94	\$255,062.44
2006	\$23,058.02	\$169,839.74	\$188,977.45
2005	\$26,390.91	\$103,091.24	\$158,153.02
2004	\$28,306.37	\$ 68,911.36	\$115,148.61
2003	\$30,737.70	\$ 64,508.65	\$ 60,796.99

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

Plan Description

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

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of the final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

There are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the last actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	8,951
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	602
Active Plan Members Vested	12,711
Active Plan Members Non-vested	3,603
Total	25,867

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded.

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007, were:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%**
Employee	0.00%	8.64%
State	N/A	3.45%

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

** The employer rate for ports and universities is 8.80%.

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

	LEOFF Plan 1	LEOFF Plan 2
2007	\$ 274.17	\$302,508.54
2006	\$ 275.34	\$287,451.72
2005	\$ 276.74	\$219,862.33
2004	\$ 294.75	\$175,705.76
2003	\$ 299.56	\$106,438.71
2002	\$ 297.08	\$148,584.39

PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS) PLAN 2

Plan Description

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

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

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

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or

- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- have primary responsibility to supervise eligible members who meet the above criteria.

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

Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of two percent of the average final compensation per year of service. The average final compensation is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

There are 69 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	0
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	2,073
Total	2,073

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2007 were as follows:

	PSERS Plan 2
Employer*	8.55%
Employee	6.57%

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

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

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

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

The Volunteer Fire Fighters' Relief and Pension Fund System is a cost-sharing multiple-employer retirement system created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension,

disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of money by the Washington State Investment Board. However, members may elect to withdraw their contributions upon termination.

NOTE 8 - RISK MANAGEMENT

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

The pool allows members to jointly purchase insurance coverage, provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability and all other coverages are on an "occurrence basis". The Pool maintains a self-insurance layer limit of \$3,000,000 per occurrence, with a reinsured excess layer limit of \$12,000,000 per occurrence. Coverage includes general liability, automobile liability, stop-gap coverage, errors or omissions liability, and employee benefits liability. Claims deductibles run in levels of \$1,000 for property, and \$1,000 for automobile physical damage. During the last 3 years, the City has not experienced any claim settlements that have exceeded existing coverage.

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.

NOTE 9 - SHORT-TERM DEBT

The City has no outstanding anticipation notes (other than bond anticipation notes that are accounted for as long-term debt), interest-bearing (registered or revenue) warrants, or similar contractual debt in 2007 nor were any issued during the year.

NOTE 10 - LONG-TERM DEBT

Long-Term Debt

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

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds. General obligation bonds are created by a 60% majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council and normally financed from general fund revenues (councilmanic bonds). All bond issues comply with arbitrage regulations

General obligation debt currently outstanding is as follows:

Purpose	Interest Rates	Amount
1996 GO Refunding of 1987 & 1991 GO Bonds. Original issue: \$2,680,000	5.15%-5.85%	\$ 670,000
1998 Fire Trucks and Equipment LTGO Bond Original issue: \$250,000	5.60%	\$ 8,300
Total		\$ 678,300

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
2008	\$218,230	\$38,850	-	-
2009	220,000	26,800	-	-
2010	240,000	14,040	-	-
2011	-	-	-	-
2012	-	-	-	-
Total	\$678,230	\$79,690	-	-

Revenue bonds

The City also issued bonds where the government pledged income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the City Council and financed from enterprise fund revenues.

Water and sewer revenue bond covenants require that revenue available for debt service (defined as operating and non-operating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.25 times the maximum annual debt service (see statistical section). There are numerous limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions. All bond issues comply with arbitrage regulations

The revenue bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount
1996 Water & Sanitary Sewer Revenue Refunding Bonds Original issue amount: \$3,495,000	5.20% - 5.75%	\$1,405,000
2004 Water & Sewer Revenue Bonds Original issue amount: \$2,865,000	4.55%	\$2,520,000
PW-03-691-PRE-127 Public Works Trust Fund Loan Original principal: \$143,000	0.5%	\$57,293
PW-05-691-PRE-106 Public Works Trust Fund Loan Original principal: \$280,500	0.5%	\$13,682
PW-05-691-042 Public Works Trust Fund Loan Original principal: \$834,700	0.5%	\$413,661
PW-05-691-031 Public Works Trust Fund Loan. Original principal: \$2,694,500	0.5%	\$538,900
Total		\$4,948,536

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2008	514,552	187,433
2009	539,552	166,332
2010	535,905	142,457
2011	551,344	116,963
2012	176,344	90,266
2013-2017	956,722	374,716
2018-2022	1,101,721	214,151
2023-2026	572,396	28,953
Total	\$4,948,536	\$1,321,271

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount. Restricted assets in proprietary funds contain \$953,352 in reserves as required by bond indentures.

During 2007, the City completed construction on a number of Sewer projects, which were partially financed through the issuance of the 2004 Water & Sewer Revenue Bonds. The receipt of funds and the subsequent payment of expenditures for these projects were accounted for in the capital projects Fund #362 2004 Sewer Bond Construction. The projects were completed during December of 2007 and, accordingly, the capital assets and remaining bond principal of \$2,630,000 was transferred to Fund #402 Sewer Fund.

Refunded Debt

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

NOTE 11 - LEASES AND CONTRACT OBLIGATIONS

Operating Leases

The City of Oak Harbor leases office equipment with Xerox under non-cancelable operating leases. Total cost for such leases was \$45,606 for the year ending December 31, 2007. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2008	\$ 32,276
2009	\$ 32,276
2010	\$ 30,040
2011	\$ 12,255
2012	-
Total	\$106,847

Capital Leases

The City has no capital lease agreements and did not enter into any capital lease agreements during 2007.

Contracts

The City of Oak Harbor entered into a 6-year agreement and 1-year extension, with Island Thrift, a local non-profit charitable organization. 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 7-year period, 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 7-year period, July 2008, the City will immediately convey the modular to Island Thrift at which time Island Thrift will have 180 days to remove the modular from City property and title to the modular will be conveyed to Island Thrift.

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

The asset acquired through this agreement is as follows:

Asset	Governmental Activities
Respite Modular	\$ 138,572
Less Rent Expense	\$ 138,572
Total	\$ -

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2007, 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 12/31/2007	Additions	Reductions	Ending Balance 12/31/2007	Due within One Year
Governmental Activities:					
Bonds Payable: General obligation	\$3,859,566	\$0	\$3,181,266	\$678,300	\$218,300
Less Deferred Amounts: For issuance discounts on refunding	0	0	0	0	0
Total bonds payable:	3,859,566	0	3,181,266	678,300	218,300
Accrued Wages, Taxes, Benefits	0	0	0	0	-
Compensated absences & LT Liabilities	879,436	130,268	0	1,009,704	403,882
Government Activity Long-term Liabilities	\$4,739,002	\$130,268	\$3,181,266	\$1,688,004	\$622,182
Business-type Activities:					
Bonds payable: General Obligation Bonds/Revenue Bonds	\$1,710,000	\$2,630,000	\$415,000	\$3,925,000	\$430,000
Less deferred amounts: For issuance discounts	(1,013)	0	181	(832)	0
Total bonds payable:	1,708,987	2,630,000	414,819	3,924,168	430,000
PWTF Loans	290,812	981,045	248,320	1,023,537	84,552
Accrued Wages, Taxes, Benefits	0	0	0	0	0
Payable from Restricted Assets (Landfill Closure)	70,157	0	0	70,157	0
Compensated absences & LT Liabilities	139,247	6,727	0	145,974	58,390
Business-type Long Term Liabilities	\$2,209,203	\$3,617,772	\$663,139	\$5,163,836	\$572,942

Typically internal Service funds predominantly serve the governmental funds, however, the City of Oak Harbor's two Internal Service funds, Equipment Rental and City Shop Facility, serve both governmental and the five proprietary funds. As reported in the Government-Wide Financial Statements, the internal service fund assets and liability balances are included in the governmental statement of net assets. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, there were no internal service funds bonds, notes and loans payable outstanding. However, \$94,454 of internal service funds compensated absences are

included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 - CONTINGENCIES AND LITIGATIONS

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

As discussed in Note No.10 (Long-Term Debt), the City of Oak Harbor is contingently liable for repayment of refunded debt.

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

NOTE 14 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$15,135,791 of restricted net assets, of which \$15,135,791 is restricted by enabling legislation.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund Balances

Loans between funds are classified as interfund loans receivable and payable on the statement of net assets. Loans between funds must be authorized by City Council. All loans are authorized with specific repayment terms at a reasonable interest rate. Due to other funds and due from other funds result from goods issued, work performed, or services rendered to or for the benefit of another fund of the same government when cash is not immediately moved between the funds. Transfers in/out include transfers to support the operations of other funds, contributions to the capital of enterprise or internal service funds and transfers to establish or reduce working capital in funds. As of December 31, 2007, the City has no interfund loans, nor was there any interfund loan activity.

The balances of amounts due to or from one fund to another are as follows:

		Due From										
Due To		General Fund	2004 Sewer Bond	All Others	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste	Storm Drain Fund	Marina Fund	Equipment Rental Fund	Shop Facility Fund	Total
	General Fund			0	\$9,892	\$11,347	\$12,368	\$4,720	\$2,128	\$6,663	\$11,857	\$1,447
2004 Sewer Bond Fund												\$0
All Others	\$5,683		\$0	\$2,100								\$7,783
Water and Water Reserve Fund		8,456	0									\$8,456
Sewer and Sewer Reserve Fund		3,134	0									\$3,134
Solid Waste		1,987	0									\$1,987
Storm Drain Fund		9,955	0									\$9,955
Total	\$29,215	\$0	\$11,992	\$11,347	\$12,368	\$4,720	\$2,128	\$6,663	\$11,857	\$1,447	\$91,737	

Interfund Transfers

Interfund transfers that have occurred during 2007 were as follows:

		Transfer From									
Transfer To		General Fund	2004 Sewer Bond Fund	All Other Funds	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste Fund	Storm Drain and Reserve Fund	Equipment Rental Fund	Equipment Replacement Fund	Total
	General Fund	\$57		\$247,394	\$446,008	\$435,507	\$197,632	\$249,945	\$45,096		\$1,621,639
	2004 Sewer Bond Fund					177,603					\$177,603
	All Other Funds	573,260		600,000	10,000	10,000					\$1,193,260
	Water and Water Reserve Fund										\$117,000
	Sewer and Sewer Reserve Fund		\$2,862,204								\$2,862,204
	Storm Drain and Reserve Fund								25,000		\$25,000
	Technology Reserve Fund	1,318								204,093	\$205,411
	Shop Facility Fund	40,957		73,863	73,863	40,957	40,957	40,957	40,957		\$352,511
	Total	\$615,592	\$2,862,204	\$921,257	\$646,871	\$664,067	\$238,589	\$315,902	\$86,053	\$204,093	\$6,554,628

During 2007, the City completed construction on a number of Sewer projects, which were partially financed through the issuance of the 2004 Water & Sewer Revenue Bonds. The receipt of funds and the subsequent payment of expenditures for these projects were accounted for in the capital projects Fund #362 2004 Sewer Bond Construction. The projects were completed during December of 2007 and, accordingly, the assets and remaining bond principal of \$2,862,204 was transferred from Fund #362 2004 Sewer Bond Fund to Fund #402 Sewer Fund.

Bond proceeds in Governmental Funds are recorded as revenue at the time the proceeds are received due to the requirement of Governmental Funds to use the modified basis of accounting. Accordingly, any unamortized bond liability balances are not reflected on the Statement of Net Assets. Business-type activity funds use the full accrual basis of accounting and, accordingly, record bond liability balances on their respective Statements of Net Assets. When a transfer of bond principal is made from Governmental to Business-type Activity entities, the receiving Business-type Activity Fund records the credit to the Statement of Net Assets as bonds payable rather than a credit to the Statement of Revenues, Expenses, and Changes in Fund Net Assets as an operating transfer in. The result of this adjustment between the modified basis of accounting and full accrual basis of accounting causes operating transfers in to not be equal to operating transfers out when the transaction occurs between funds using the two different methods of accounting. Due to this dynamic, the operating transfer in to the Sewer Fund as reflected in the Interfund Transfers schedule above in the amount of \$2,862,204 will not agree to the Sewer Fund Operating transfers in as shown on the Sewer and Sewer Reserve Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets in the amount of \$342,204. The difference of \$2,520,000 represents the remaining unamortized principal of the 2004 Sewer Bond issue that was transferred between the two funds.

NOTE 16 – RECEIVABLE BALANCES

Major Receivables

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

Receivables at December 31, 2007 were as follows:

Receivables:	General	2004 Sewer Bond	All Other Funds	Water	Sewer	Solid Waste	Storm Drain	Marina	Total
Taxes	\$103,998	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$103,998
Municipal Court	1,533,122	0	0	0	0	0	0	0	1,533,122
Accounts	77,207	0	313	440,722	516,534	417,995	142,374	14,533	1,609,678
Due from other Governments	839,168	0				14,634	435	8,791	863,028
Gross Receivables	2,553,495	0	313	440,722	516,534	432,629	142,809	23,324	4,109,826
Less: Allowance for Uncollectible	(766,561)	0	0	0	0	0	0	0	(766,561)
Net Total Receivables	\$1,786,934	\$0	\$313	\$440,722	\$516,534	\$432,629	\$142,809	\$23,324	\$3,343,265

Total governmental activities receivables were \$1,787,247 and business-type activities receivables were \$1,556,018.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Total governmental activities deferred revenue at December 31, 2007 was \$122,871 and business-type activities deferred revenue was \$20,507.

NOTE 18 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFIT

In addition to the pension benefits described in Note No. 7, the City of Oak Harbor provides post-retirement health care benefits, in accordance with RCW 41.26.090 to LEOFF I employees who have 5 or more service credit years of service and have attained the age of 55.

The City reimburses 100% of the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees.

Employer contributions are financed on pay-as-you-go basis. Expenditures for post-employment health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the City.

NOTE 19 – CLOSURE AND POSTCLOSURE CARE COST

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

**NOTE 20 - OTHER DISCLOSURES
ACCOUNTING AND REPORTING CHANGES**

The City currently reports its agency related activities in Fund 850 *Expendable Trust Fund*. For financial statement presentation purposes, these activities are reported as a consolidated component of the Governmental Funds Statement of Net Assets and Statement of Activities.

SUBSEQUENT EVENTS

In 1987, the City entered into a 50-year license agreement with the U.S. Navy to utilize certain sanitary sewer treatment facilities located on Navy property. During 2002, the Department of Defense entered in negotiations with the City of Oak Harbor to privatize the treatment of its sewer system aboard the Whidbey Island Naval Air Station. Discussion is still on-going in 2007.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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