



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements Audit Report**  
**City of Oak Harbor**

**For the period January 1, 2017 through December 31, 2017**

**Published November 15, 2018**

**Report No. 1022590**





**Office of the Washington State Auditor  
Pat McCarthy**

November 15, 2018

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

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	4
Independent Auditor's Report on Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	80

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

**City of Oak Harbor  
January 1, 2017 through December 31, 2017**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 7, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

November 7, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Oak Harbor January 1, 2017 through December 31, 2017

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

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

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

#### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

November 7, 2018

## FINANCIAL SECTION

### City of Oak Harbor January 1, 2017 through December 31, 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2017

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – 2017

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2017

Statement of Cash Flows – Proprietary Funds – 2017

Notes to the Basic Financial Statements – 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, PSERS 2 – 2017

Schedule of Proportionate Share of Net Pension Asset – LEOFF 1, LEOFF 2, VFFRPF – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS 2, LEOFF 1, LEOFF 2, VFFRPF – 2017

OPEB Schedule of Funding Progress – LEOFF 1 – 2017

OPEB Schedule of Employee Contributions – LEOFF 1 – 2017

---

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the City of Oak Harbor's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

This MD&A, combined with the Financial Statements and the Notes to the Financial Statements, represents the complete 2017 financial activities for the City of Oak Harbor. These are all intended to help the reader understand the City's significant financial issues. This MD&A provides an overview of the City's financial records. The data in this financial report also identifies any material deviations from the financial plan and the adopted annual budget. Finally, the intent of the MD&A and other financial information is to isolate and identify individual fund issues or concerns.

## FINANCIAL INFORMATION

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

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

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

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

## FINANCIAL HIGHLIGHTS

- The City's overall financial conditioned improved during 2017, as compared to 2016.
- City of Oak Harbor assets exceeded its liabilities at the close of the 2017 fiscal year by \$150.70 million (net position). Of this amount, \$56.60 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- Reported net position increased \$8.53 million after the

---

---

prior period adjustment for taxes. The overall net position of governmental activities increased \$3.12 million, or 5.65%, during 2017. Net position of business-type activities increased \$5.41 million, or 6.22%, during 2017.

- Total liabilities and deferred inflows increased by \$59.00 million or 95.75%, primarily due to loans for the Clean Water Facility.

- Overall, the book value of capital assets increased by \$56.63 million, or 49.40%. Total capital assets from governmental activities decreased \$0.55 million or 1.73%. This net decrease is primarily due to the sale of internal service vehicles during the year. Capital assets of business-type activities increased \$57.18 million or 69.18%. This net increase is due to the construction of the Clean Water Facility. Additional information on the City's capital assets can be found in Note 5 of this report.

- At the close of 2017, the City's governmental funds reported combined ending fund balances of \$21.51 million. Approximately 54.49% of this total amount, or \$11.72 million, is available for spending at the government's discretion (committed, assigned, and unassigned fund balances). 54.11% or \$11.64 million of the ending fund balances are recorded in the City's Special Revenue, Debt Service and Capital Project funds.

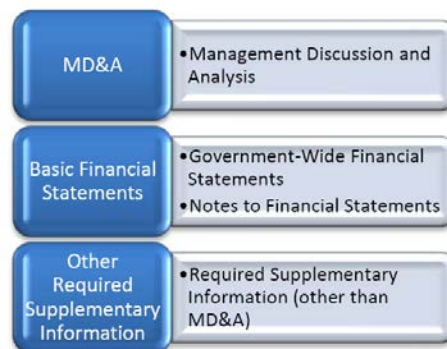
- At the end of the current fiscal year, the ending fund balance for the General Fund was \$9.87 million. Of this amount, 98.58%, or \$9.73 million, is available for spending at the government's discretion.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The graphic representation below illustrates the required components of the City's annual financial report and how the required parts are arranged and relate to one another. This illustration helps explain the City's financial presentation in 2017. This graphic representation should be used in conjunction with the following explanations to help guide the reader in understanding the financial condition of the City of Oak Harbor.



## BASIC FINANCIAL STATEMENTS

---

---

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

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

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

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

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

## **Fund Financial Statements**

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

---

---

financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type. All of the City of Oak Harbor's funds can be divided into two categories: sixteen individual governmental funds and eight proprietary funds. The City of Oak Harbor does not utilize fiduciary funds.

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

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

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

### **Governmental Funds:**

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

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

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

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

### **Proprietary Funds**

---

---

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

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

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

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

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**The Statement of Net Position** can serve as a useful indicator of the City's financial position. The City of Oak Harbor's net position at December 31, 2017, totals \$150.70 million. Following is a condensed version of the government-wide statement of net position comparing fiscal year 2017 to 2016.

**City of Oak Harbor**  
**Net Position**  
**December 31, 2016 and 2017**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Current and other assets	\$34,706,803	\$30,498,319	\$64,245,851	\$56,794,852	\$ 98,952,653	\$ 87,293,172
Capital assets (net)	31,426,912	31,979,273	139,827,223	82,648,974	171,254,135	114,628,246
Total assets	66,133,714	62,477,592	204,073,074	139,443,826	270,206,788	201,921,418
Deferred outflows of resources	901,377	1,467,590	222,915	335,263	1,124,291	1,802,852
Total assets and deferred outflows of resources	67,035,091	63,945,182	204,295,989	139,779,088	271,331,080	203,724,270
Current and other liabilities	998,347	877,124	9,795,784	4,791,817	10,794,130	5,668,940
Long-term liabilities	6,592,311	7,593,319	101,847,760	47,927,778	108,440,071	55,521,098
Total liabilities	7,590,657	8,470,443	111,643,544	52,719,595	119,234,202	61,190,038
Deferred inflows of resources	1,144,570	366,805	248,582	65,819	1,393,152	432,624
Total Liability and deferred inflows of resources	8,735,228	8,837,248	111,892,126	52,785,414	120,627,353	61,622,662
<b>Net Position</b>						
Net investment in capital assets	30,993,171	31,496,387	41,195,505	36,320,636	72,188,677	67,817,022
Restricted	11,056,902	9,138,199	10,861,101	338,928	21,918,003	9,477,127
Unrestricted	16,249,790	14,473,348	40,347,256	50,334,111	56,597,047	64,807,458
Total net position	\$58,299,863	\$55,107,934	\$92,403,863	\$86,993,674	\$150,703,726	\$ 142,101,608

Note: Totals may not foot due to rounding.

As of the end of 2017, the largest component of the City's total net position at \$72.19 million, or 47.90%, is its investment in capital assets (e.g., land, buildings, streets, parks, water/sewer infrastructure, and machinery and equipment) less any related outstanding debt issued to acquire those assets. These capital assets are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. Approximately \$21.92 million, or 14.54%, of the City's total net position is subject to legal restrictions.

The net position of governmental activities increased by \$3.12 million after the prior period adjustment for taxes, a net change of 5.65%. The net position of business-type activities increased \$5.41 million, a change of 6.22%. These increases are due to revenues continuing to exceed expenditures.

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

**The Statement of Activities** can serve as a useful indicator of the results of operations for the City. The following table is a condensed version of the Statement of Activities, illustrating the increases or decreases in net position of the City resulting from its operating activities. The table shows the revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type activities for 2017 and 2016:

**City of Oak Harbor**  
**Changes in Net Position**  
**December 31, 2017**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 2,482,774	\$ 2,578,656	\$21,443,556	\$20,063,521	\$ 23,926,331	\$ 22,642,177
Operating grants and contributions	50,093	45,255	27,073	33,578	77,166	78,832
Capital grants and contributions	28,884	155,081	830,804	7,647,850	859,689	7,802,931
General revenues:						
Property taxes	4,169,204	4,168,480	-	-	4,169,204	4,168,480
Sales and use taxes	3,818,150	3,478,424	-	-	3,818,150	3,478,424
Other taxes	4,101,108	3,971,511	-	-	4,101,108	3,971,511
Licenses and permits	578,270	768,368	-	-	578,270	768,368
Unrestricted grants and contributions	1,918,728	1,789,203	-	-	1,918,728	1,789,203
Investment earnings	119,118	89,695	241,980	165,269	361,098	254,965
Miscellaneous	493,380	623,654	273,658	236,796	767,039	860,450
Gain (loss) on sale of assets	16,126	12,113	76,510	(497,664)	92,636	(485,552)
Total revenues	<u>17,775,835</u>	<u>17,680,440</u>	<u>22,893,582</u>	<u>27,649,350</u>	<u>40,669,417</u>	<u>45,329,790</u>
<b>EXPENSES</b>						
Governmental activities:						
General government	1,875,970	2,001,621	-	-	1,875,970	2,001,621
Judicial	354,753	377,129	-	-	354,753	377,129
Public safety	7,399,967	7,675,391	-	-	7,399,967	7,675,391
Transportation	1,826,071	1,846,452	-	-	1,826,071	1,846,452
Natural and economic environment	1,383,226	1,584,312	-	-	1,383,226	1,584,312
Social services	345,864	353,238	-	-	345,864	353,238
Culture and recreation	1,929,017	1,613,258	-	-	1,929,017	1,613,258
Interest expense and related charges	10,579	19,467	-	-	10,579	19,467
Business-Type activities:						
Water and Water Reserve Fund	-	-	5,667,568	5,633,037	5,667,568	5,633,037
Sewer and Sewer Reserve Fund	-	-	4,577,753	5,040,703	4,577,753	5,040,703
Solid Waste and Solid Waste Reserve Fund	-	-	3,882,957	3,498,452	3,882,957	3,498,452
Storm Drain and Storm Drain Reserve Fund	-	-	1,566,666	1,769,617	1,566,666	1,769,617
Marina and Marina Reserve Fund	-	-	1,321,248	1,245,047	1,321,248	1,245,047
Total expenses	<u>15,125,447</u>	<u>15,470,869</u>	<u>17,016,193</u>	<u>17,186,855</u>	<u>32,141,639</u>	<u>32,657,724</u>
Change in net position before special items and transfers	2,650,389	2,209,571	5,877,389	10,462,494	8,527,778	12,672,066
Transfers	467,200	106,776	(467,200)	(106,776)	-	-
Change in net position	<u>3,117,589</u>	<u>2,316,347</u>	<u>5,410,189</u>	<u>10,355,719</u>	<u>8,527,778</u>	<u>12,672,066</u>
Net position - beginning	55,182,275	52,791,587	86,993,674	76,637,955	142,175,949	129,429,542
Prior period adjustment	-	74,341	-	-	-	74,341
Net position - ending	<u>\$58,299,863</u>	<u>\$55,182,275</u>	<u>\$92,403,863</u>	<u>\$86,993,674</u>	<u>\$150,703,726</u>	<u>\$142,175,949</u>

Note: Totals may not foot due to rounding.

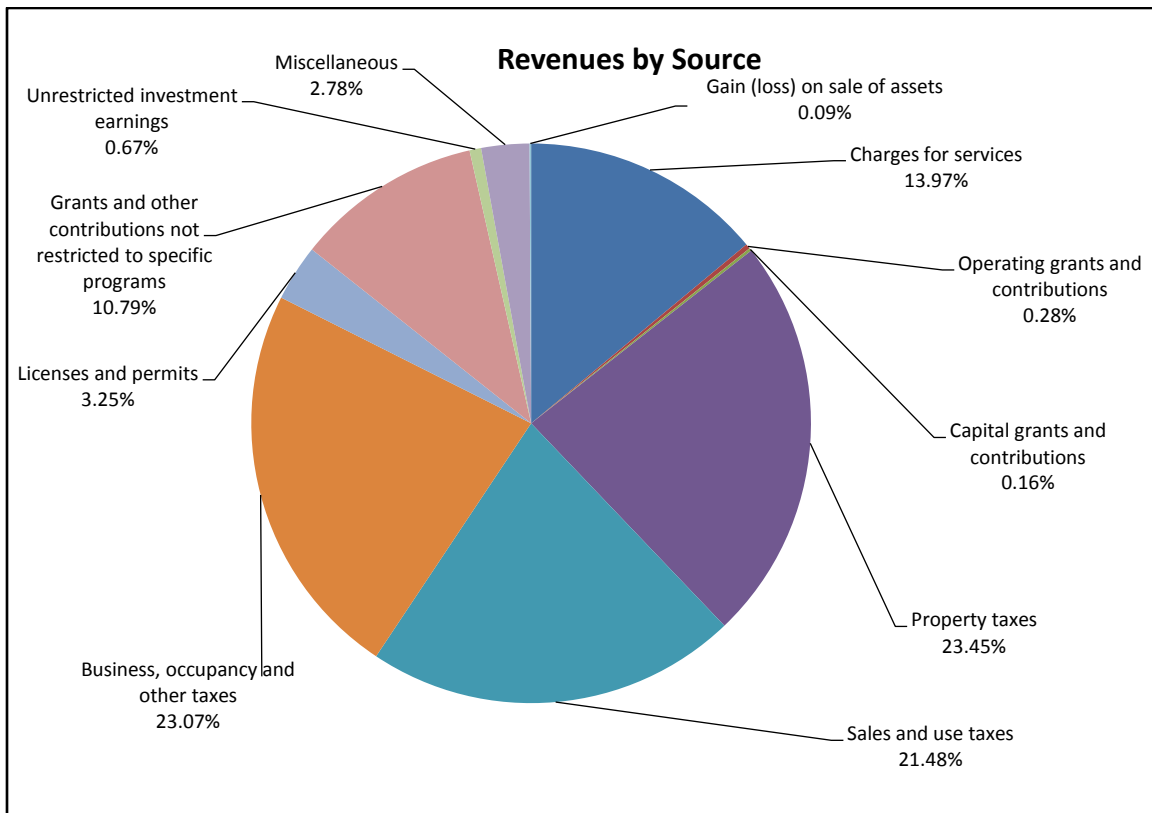
In governmental activities, total revenues for 2017 show a \$95,396 increase when compared to revenues of the previous year primarily due to increase in tax revenue. In business-type activities, revenues have decreased \$4.76 million primarily due to 2016 grants for the Clean Water Facility. The City is currently increasing sewer rates for the construction of the Clean Water Facility.

---

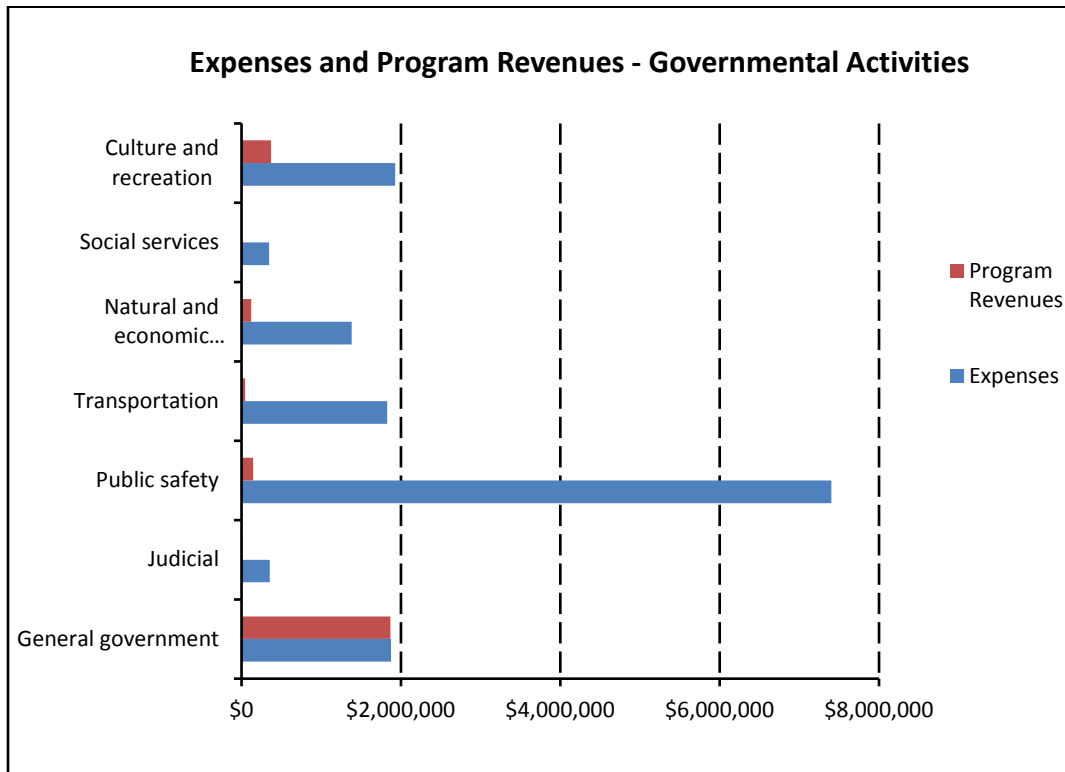
## GOVERNMENTAL ACTIVITIES ANALYSIS

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

In regards to governmental revenue types (net of transfers), taxes account for the largest revenue category, generating \$12.09 million, or 68.01%, of the \$17.78 million total governmental revenues. The majority of tax revenue is received in the General Fund accounting for \$10.86 million, or 74.43%, of General Fund revenues. Because of this high percentage, this General Fund category receives the majority of attention during the City's budgeting process. Included in this category are sales, property, utility, criminal justice, and gambling taxes.



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



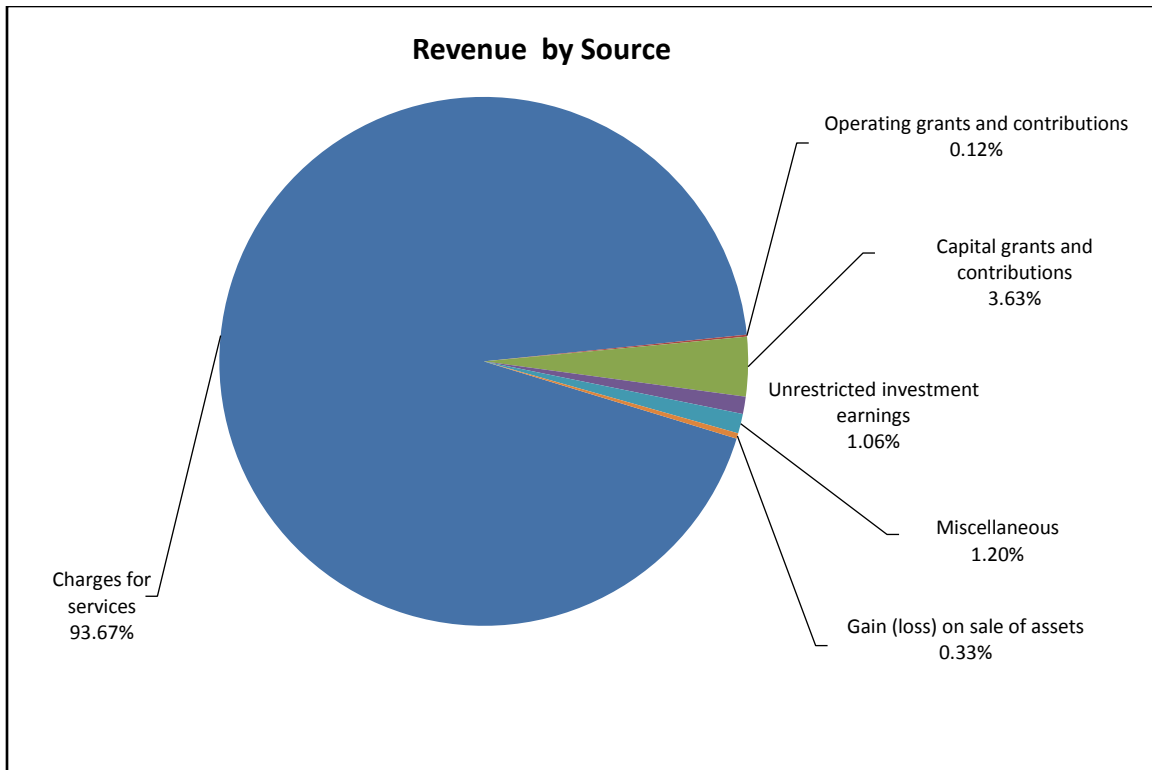
General government services encompass a variety of services including executive, development services, financial, legal, judicial, personnel, building maintenance, and audit/risk management. Security of persons and property services are provided by the City's Police Department who works to provide professional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

---

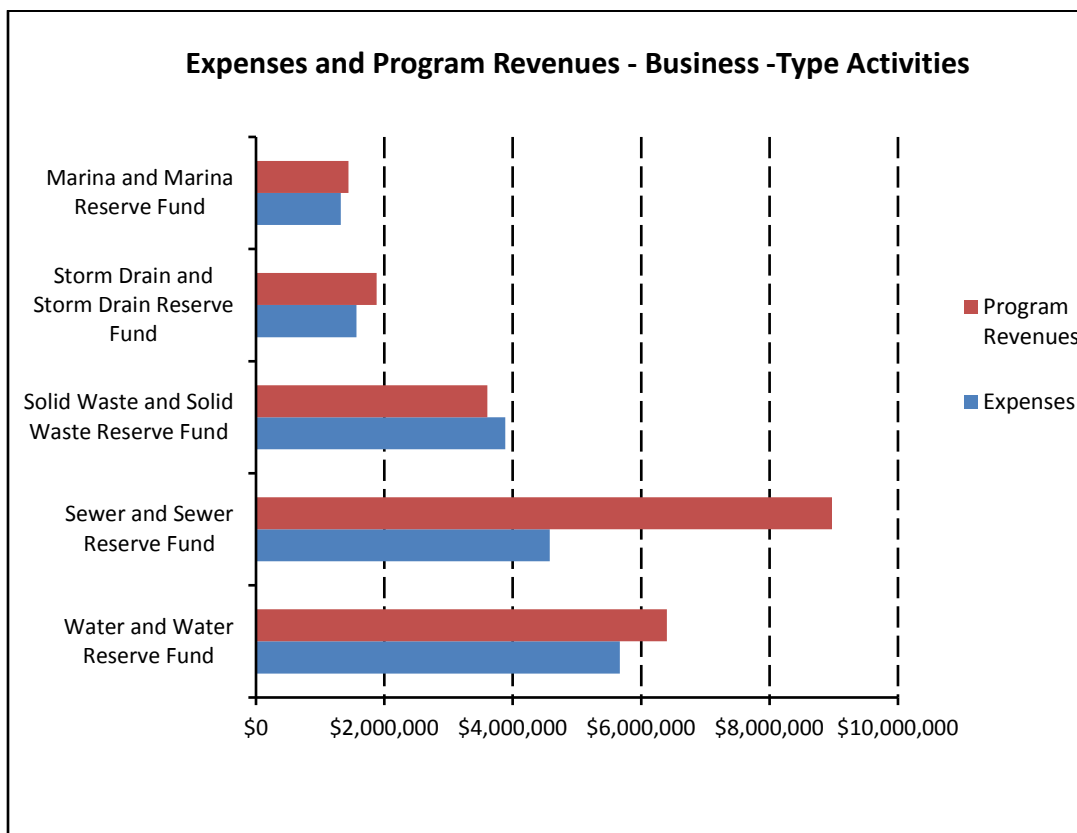
---

## BUSINESS-TYPE ACTIVITIES ANALYSIS

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



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



### Enterprise Funds

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

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

- **Sewer and Sewer Reserve Fund:** The City's sewer utility is also solely supported by its users and revenue is generally derived from three sources: 1) monthly service charges, 2) system connection fees, and 3) miscellaneous revenues. The majority of operating revenue comes from monthly service charges. The City has been increasing the sewer rates in preparation of building the Clean Water Facility.

- **Solid Waste and Solid Waste Reserve Fund:** The solid waste utility is supported by its users and revenue is generally derived from service charges for scheduled residential and commercial solid waste pickup. The City also receives fees for the collection of compostable green waste, and for regular dumpster garbage collection. The City's recycle program is included within the service charge fee structure. The majority of revenue comes from monthly service charges. There was no cost inflator for the rates in 2017 keeping the revenues fairly consistent with previous years, although total revenues for the Solid Waste fund

---

---

have increased due to the addition of new customers due to the expiration of long-term franchise agreements from previous annexation agreements.

• **Storm Drain and Storm Drain Reserve Fund:** The City's storm drain utility is supported by its users and revenue is generally derived from monthly service charges. Rates are charged to residential and commercial customers by the area of equivalent residential units (ERU). The rate structure provides funding for many of the storm water projects identified in the City's Comprehensive Storm Water Management Plan.

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

The City seeks to supplement business activities, as well as governmental activities, through the prudent application of third party funding sources in the form of grants wherever possible. During 2017, business activity program revenues exceeded expenditures because rates were set to accommodate future capital improvements for a fully functioning system. Recently all utilities either implemented or updated their functional plans to evaluate future improvements and operating costs. Rates have been set to reflect these plans.

### **Internal Service Funds:**

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

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

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

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

### **MAJOR FUND ANALYSIS**

The City, in accordance with GASB 34, performed the major fund calculation and determined that only the General Fund met the requirement to qualify as major fund. The remaining governmental funds are combined and reported in aggregate. These funds are accounted for using the modified accrual basis of

---

---

accounting. As reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, total revenues equal \$17.76 million with total expenditures equaling \$16.59 million.

• **General Fund:** The General Fund accounts for the main operating revenues and expenditures of the City's governmental functions. Revenues and expenditures related to executive, judicial, finance, legal, public safety, building inspection and planning and park operations are some of the primary functions of the general government accounted for in General Fund. The majority of tax revenues are receipted into the General Fund supporting the governmental functions of the City. The fund balance for the General Fund has decreased \$213,283, or 2.11%. During 2017, the General fund helped to fund the renovations of Windjammer Park.

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

## **BUDGETARY HIGHLIGHTS**

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

Budgeted General Fund expenditures decreased as the result of capital projects that were postponed or canceled. Some adjustments were made between budgeted expenditure line items within departments of the General Fund, with none of these interdepartmental adjustments impacting total adopted fund appropriation.

## **CASH MANAGEMENT**

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

## **DEBT ADMINISTRATION**

The City participates in various forms of debt at the end of 2017. In governmental activities, the City has participated in the LOCAL program has a Certificate of Participation in the amount of \$394,151.

In business-type activities, the City has an outstanding LTGO bond issue in the amount of \$1,825,000 being retired by revenues pledged from the Marina Fund and a revenue bond in the amount of \$25,720,000 being retired from the Sewer Fund,

Additionally, the City has three Public Works Trust Fund Loans for a combined amount of \$1,259,304 which are being retired by revenues pledged from the Water Fund and Storm Drain Fund, and five State Revolving

---

---

loans for a combined amount of \$71,892,016 which are being retired from revenues pledged from the City's Sewer Fund.

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

1. The first limit is on the amount of general obligation debt that can be incurred without a vote of the people. For this type of debt, a city is limited to 1.5% of its assessed value (\$1,739,180,817), or \$26,087,712, less outstanding general obligation debt originated without a public vote of \$1,825,000 for a total of \$24,262,712.
2. The second statutory limit is the amount of general obligation debt a city may incur for general governmental purposes with a vote of the people. This limit is 1.0% of the assessed value. For 2017, the City's limit is \$17,391,808, less any amount issued as non-voted debt. At this time the City does not have any voted debt.
3. The third limit is also calculated as a percentage of assessed value. This statutory limit allows a City to incur general obligation debt of up to an additional 2.5% of its assessed value for bond issues approved by the voters for the purpose of utility improvements and an additional 2.5% for parks or open space development. For 2017, the City's limit is \$43,479,520.

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

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

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

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

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

### **Economy Recovery**

The local economy experienced a similar level of revenue deterioration that other communities felt, on a national level, as a result of the economic downturn beginning in 2008. From a local perspective, sales tax revenues, representing a significant revenue component and a barometer of the local economy, declined significantly through the early months of 2013. From mid-2013 through 2017, the City has experienced a slight upturn in sales tax revenue receipts – a fact which represents an improvement in spending and the economic condition of consumers in Oak Harbor and increased construction projects. One large project, City driven, is the Waste Water Treatment Plant that has increased our sales tax from 2015 and will continue through 2019. While this welcomed revenue improvement is encouraging, several of the businesses which contributed significantly to the City's sales tax generation base closed or moved away from the local

---

---

community. Unfortunately, these businesses, primarily automobile dealerships, are not here to participate in any economic recovery. The City is taking a conservative approach in its budgetary estimates of the rapidity and amount of economic recovery. Accordingly, budgeted sales tax revenues are calculated using a 1% increase escalator index for both 2017 and 2018.

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

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

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

### **Changes in State Law**

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

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

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

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

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

---

---

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

### **Request for Financial Information**

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

**City of Oak Harbor**  
**Statement of Net Position**  
**December 31, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 25,206,205	\$ 44,341,205	\$ 69,547,410
Investments	5,136,863	13,835,909	18,972,771
Accounts receivable (net)	236,905	2,426,635	2,663,541
Deposits receivable	-	3,116,100	3,116,100
Due from other governments	1,104,712	9,572	1,114,284
Inventories	29,696	32,306	62,002
Prepays	229,893	4,125	234,018
Total current assets	31,944,274	63,765,852	95,710,126
Noncurrent assets:			
Restricted cash	1,168,190	479,999	1,648,189
Pension asset	1,594,339	-	1,594,339
Land	10,823,875	5,108,166	15,932,041
Construction in progress	880,215	92,847,507	93,727,722
Intangible assets	50,000	-	50,000
Buildings and systems	5,293,913	2,217,250	7,511,163
Improvements and infrastructure	10,063,020	38,733,125	48,796,145
Machinery and equipment	4,315,889	921,175	5,237,064
Total noncurrent assets	34,189,441	140,307,222	174,496,663
Total assets	66,133,714	204,073,074	270,206,788
<b>Deferred Outflows of Resources</b>			
Pension	901,377	222,915	1,124,291
Total deferred outflows of resources	901,377	222,915	1,124,291
Total assets and deferred outflows of resources	67,035,091	204,295,989	271,331,080
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	620,790	5,940,756	6,561,546
Accrued interest payable	1,526	79,858	81,384
Other current liabilities	178,030	3,359,244	3,537,274
Wages payable	549	-	549
Unearned revenue	37,991	-	37,991
Compensated absences	117,884	22,103	139,988
Due to other governments	41,575	283,823	325,398
Bonds payable, net	-	110,000	110,000
Total current liabilities	998,347	9,795,784	10,794,130
Noncurrent liabilities:			
Compensated absences	1,411,010	254,779	1,665,789
Due to other governments	392,165	72,867,497	73,259,662
Bonds payable, net	-	27,479,906	27,479,906
OPEB obligation	1,153,304	-	1,153,304
Pension obligation	3,635,832	1,245,579	4,881,410
Total noncurrent liabilities	6,592,311	101,847,760	108,440,071
Total liabilities	7,590,657	111,643,544	119,234,202
<b>Deferred Inflows of Resources</b>			
Pension	1,135,426	248,582	1,384,008
Other	9,144	-	9,144
Total deferred inflows of resources	1,144,570	248,582	1,393,152
Total liabilities and deferred inflows of resources	8,735,228	111,892,126	120,627,353
<b>Net Position</b>			
Net investment in capital assets	30,993,171	41,195,505	72,188,677
Restricted for:			
Public safety	12,132	-	12,132
Transportation	4,680,164	-	4,680,164
Culture and recreation	1,002,840	-	1,002,840
Capital projects	3,964,578	10,604,101	14,568,679
Pensions	1,397,188	-	1,397,188
Debt service	-	257,000	257,000
Unrestricted	16,249,790	40,347,256	56,597,047
Total net position	\$ 58,299,863	\$ 92,403,863	\$150,703,726

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

City of Oak Harbor  
Statement of Activities  
For the Year Ended December 31, 2017

Functions/Programs	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities    Business-type Activities    Total
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 1,875,970	\$ 1,869,119	\$ -	\$ -	\$ (6,851)    \$ -    \$ (6,851)
Judicial	354,753	8,855	-	-	(345,898)    -    (345,898)
Public safety	7,399,967	87,924	30,339	28,884	(7,252,819)    -    (7,252,819)
Transportation	1,826,071	41,629	2,797	-	(1,781,646)    -    (1,781,646)
Natural and economic environment	1,383,226	122,506	-	-	(1,260,720)    -    (1,260,720)
Social services	345,864	-	-	-	(345,864)    -    (345,864)
Culture and recreation	1,929,017	352,742	16,958	-	(1,559,317)    -    (1,559,317)
Interest expense and related charges	10,579	-	-	-	(10,579)    -    (10,579)
Total governmental activities	15,125,447	2,482,774	50,093	28,884	(12,563,695)    -    (12,563,695)
<b>Business-type activities:</b>					
Water and Water Reserve Fund	5,667,568	6,401,278	-	-	733,710    733,710    733,710
Sewer and Sewer Reserve Fund	4,577,753	8,141,359	-	830,804	4,394,410    4,394,410    4,394,410
Solid Waste and Solid Waste Reserve Fund	3,882,957	3,603,981	-	-	(278,975)    (278,975)    (278,975)
Storm Drain and Storm Drain Reserve Fund	1,566,666	1,881,414	-	-	314,748    314,748    314,748
Marina and Marina Reserve Fund	1,321,248	1,415,523	27,073	-	121,347    121,347    121,347
Total business-type activities	17,016,193	21,443,556	27,073	830,804	5,285,240    5,285,240    5,285,240
Total primary government	\$32,141,639	\$ 23,926,331	\$ 77,166	\$ 859,689	(7,278,455)    -    (7,278,455)
<b>General revenues:</b>					
Property taxes					
Sales and use taxes					
Business, occupancy and other taxes					
Licenses and permits					
Grants and other contributions not restricted to specific programs					
Unrestricted investment earnings					
Miscellaneous					
Gain (loss) on sale of assets					
Transfers					
Total general revenues, special items, and transfers					
Change in net position					
Net position - beginning (restated)					
Net position - ending					

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

**City of Oak Harbor**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2017**

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash & cash equivalents	\$ 6,767,375	\$ 10,444,045	\$ 17,211,420
Investments	2,498,116	-	2,498,116
Accounts receivables (net)	227,761	9,144	236,905
Due from other governments	779,187	319,002	1,098,189
Prepays	128,130	498	128,628
Restricted cash	-	1,168,190	1,168,190
Total assets	<u>\$ 10,400,569</u>	<u>\$ 11,940,880</u>	<u>\$ 22,341,449</u>
<b>Liabilities</b>			
Accounts payable	\$ 272,674	\$ 275,828	\$ 548,503
Deposits	160,570	17,460	178,030
Wages payable	549	-	549
Unearned revenue	37,991	-	37,991
Total liabilities	<u>471,785</u>	<u>293,288</u>	<u>765,074</u>
<b>Deferred Inflows of Resources</b>			
Taxes	56,903	-	56,903
Other	-	9,144	9,144
Total deferred inflows of resources	<u>56,903</u>	<u>9,144</u>	<u>66,047</u>
 Total liabilities and deferred inflows of resources	 <u>528,689</u>	 <u>302,432</u>	 <u>831,121</u>
<b>Fund Balances (Deficits)</b>			
Unspendable	128,130	498	128,628
Restricted	12,132	9,647,582	9,659,714
Committed	3,800,699	1,810,368	5,611,067
Assigned	106,299	180,000	286,299
Unassigned	5,824,620	-	5,824,620
Total fund balances (deficits)	<u>9,871,880</u>	<u>11,638,448</u>	<u>21,510,328</u>
Total liabilities and fund balances (deficits)	<u>\$ 10,400,569</u>	<u>\$ 11,940,880</u>	<u>\$ 22,341,449</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor  
Reconciliation of Balance Sheet  
To the Statement of Net Position  
December 31, 2017**

---

Fund balances of governmental funds		\$21,510,328
-------------------------------------	--	--------------

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

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

Historical cost of assets not being depreciated	11,727,991	
Historical cost of assets being depreciated	45,211,411	
Accumulated depreciation	<u>(31,580,002)</u>	25,359,399

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

Other long-term assets	6,523	
Taxes receivable	<u>56,903</u>	63,426

Pension asset, pension obligation, and pension deferred items are not reported in the funds.		(1,330,697)
--	--	-------------

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

Compensated absences	(1,258,531)	
Bonds and loans payable	(435,267)	
Other post-employment benefits	<u>(1,153,304)</u>	(2,847,102)

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

15,544,508

Net position of governmental activities		<u><u>\$58,299,863</u></u>
---	--	----------------------------

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2017**

	<u>General Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 10,864,144	\$ 1,241,756	\$ 12,105,899
Licenses and permits	572,725	5,546	578,270
Intergovernmental	532,599	1,461,749	1,994,348
Charges for services	2,167,675	315,100	2,482,774
Fines and forfeits	112,915	-	112,915
Interest revenue	55,147	55,640	110,787
Miscellaneous	288,425	86,508	374,934
Total revenues	<u>14,593,629</u>	<u>3,166,298</u>	<u>17,759,927</u>
<b>Expenditures</b>			
Current:			
General government	2,945,110	-	2,945,110
Judicial	354,753	-	354,753
Public safety	7,575,227	-	7,575,227
Transportation	-	1,142,429	1,142,429
Natural and economic environment	1,178,168	268,660	1,446,828
Social services	7,973	332,905	340,878
Culture and recreation	1,535,594	266,131	1,801,725
Capital outlay:			
Capital outlay	114,411	810,351	924,763
Debt Service:			
Principal	-	39,595	39,595
Interest	-	20,294	20,294
Total expenditures	<u>13,711,237</u>	<u>2,880,367</u>	<u>16,591,604</u>
Excess (deficiency) of revenues over expenditures	<u>882,392</u>	<u>285,931</u>	<u>1,168,323</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	17,200	1,809,907	1,827,107
Transfers out	(1,115,323)	(244,583)	(1,359,907)
Insurance recoveries	2,448	208	2,656
Total other financing sources (uses)	<u>(1,095,675)</u>	<u>1,565,532</u>	<u>469,856</u>
Net change in fund balances	(213,283)	1,851,463	1,638,180
Fund balances - beginning (restated)	10,085,164	9,786,985	19,872,148
Fund balances - ending	<u>\$ 9,871,880</u>	<u>\$ 11,638,448</u>	<u>\$ 21,510,328</u>

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances to the Statement of Activities**  
**For the Year Ended December 31, 2017**

---

Net change in fund balances - total governmental funds		\$1,638,180
--	--	-------------

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

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

Capital outlay	924,763	
Depreciation	<u>(978,926)</u>	(54,163)

Proceeds from and repayment of governmental long-term debt is not reported in the funds.		49,311
--	--	--------

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

Taxes	(17,437)	
Grants	<u>3,357</u>	(14,080)

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

Compensated absences	(138,318)	
Other post-employment benefits	100,339	
Pension expense	<u>328,932</u>	290,953

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

1,207,388

Change in net position of governmental activities		<u><u>\$3,117,589</u></u>
---	--	---------------------------

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**For the Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	<b>Actual</b>
<b>Revenues</b>			
Taxes	\$10,587,970	\$10,587,970	\$10,864,144
Licenses and permits	534,550	534,550	572,725
Intergovernmental	366,925	366,925	532,599
Charges for services	2,455,644	2,455,644	2,167,675
Fines and forfeits	126,676	126,676	112,915
Interest revenue	33,100	33,100	55,147
Miscellaneous	265,540	265,540	288,425
Total revenues	<u>14,370,405</u>	<u>14,370,405</u>	<u>14,593,629</u>
<b>Expenditures</b>			
Current:			
General government	3,031,994	3,037,214	2,945,110
Judicial	448,980	448,980	354,753
Public safety	7,630,514	7,639,325	7,575,227
Natural and economic environment	1,229,417	1,231,505	1,178,168
Social services	8,000	8,000	7,973
Culture and recreation	1,504,009	1,505,053	1,535,594
Capital outlay:			
Capital outlay	548,300	85,000	114,411
Debt service:			
Interest	-	-	-
Total expenditures	<u>14,401,214</u>	<u>13,955,077</u>	<u>13,711,237</u>
Excess (deficiency) of revenues over expenditures	<u>(30,809)</u>	<u>415,328</u>	<u>882,392</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	441,400	441,400	17,200
Transfers out	(1,175,756)	(1,175,756)	(1,115,323)
Insurance recoveries	-	-	2,448
Total other financing sources (uses)	<u>(734,356)</u>	<u>(734,356)</u>	<u>(1,095,675)</u>
Net change in fund balances	(765,165)	(319,028)	(213,283)
Fund balances - beginning	10,085,164	10,085,164	10,085,164
Fund balances - ending	<u>\$ 9,319,999</u>	<u>\$ 9,766,136</u>	<u>\$ 9,871,880</u>

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

Note: Totals may not foot due to rounding.

City of Oak Harbor  
Statement of Net Position  
Proprietary Funds  
December 31, 2017

	Business-type Activities					Governmental Activities	
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste and Solid Waste Reserve Fund	Storm Drain and Storm Drain Reserve Fund	Marina and Marina Reserve Fund	Total Enterprise Funds	Internal Service Funds
<b>Assets</b>							
Current assets:							
Cash & cash equivalents	\$ 7,907,063	\$ 29,427,758	\$ 2,909,422	\$ 2,712,154	\$ 1,384,808	\$ 44,341,205	\$ 7,994,784
Investments	2,972,913	10,862,996	-	-	-	13,835,909	2,638,746
Accounts receivable (net)	657,338	894,092	383,853	222,242	269,111	2,426,635	-
Deposits receivable	-	3,116,100	-	-	-	3,116,100	-
Due from other governments	-	-	-	-	9,572	9,572	-
Inventories	-	-	-	-	32,306	32,306	29,696
Prepays	1,069	1,984	20	151	901	4,125	101,266
Total current assets	11,538,383	44,302,931	3,293,295	2,934,547	1,696,697	63,765,852	10,764,492
Noncurrent assets:							
Restricted cash	146,531	-	4,000	-	329,467	479,999	-
Land	104,351	1,626,584	201,810	-	3,175,421	5,108,166	-
Construction in progress	429,545	92,119,465	-	58,122	240,375	92,847,507	26,099
Buildings and systems	2,592	1,327,447	-	-	887,211	2,217,250	2,633,492
Improvements and infrastructure	19,642,561	15,799,216	31,199	3,213,607	46,542	38,733,125	399,128
Machinery and equipment	627,855	114,147	24,305	24,305	130,564	921,175	3,008,793
Total noncurrent assets	20,953,435	110,986,860	261,313	3,296,034	4,809,581	140,307,222	6,067,512
Total assets	32,491,817	155,289,790	3,554,607	6,230,581	6,506,278	204,073,074	16,832,004
<b>Deferred Outflows of Resources</b>							
Pension	40,536	60,538	56,094	34,208	31,538	222,915	156,920
Total deferred outflows of resources	40,536	60,538	56,094	34,208	31,538	222,915	156,920
Total assets and deferred outflows of resources	32,532,353	155,350,329	3,610,702	6,264,789	6,537,816	204,295,989	16,988,924
<b>Liabilities</b>							
Current liabilities:							
Accounts payable	244,685	5,363,534	122,545	22,878	187,115	5,940,756	72,287
Deposits	64,604	-	4,000	-	72,467	141,071	-
Retainage	95,032	3,116,100	-	-	7,041	3,218,173	-
Interest payable	1,281	71,266	-	1,196	6,115	79,858	-
Compensated absences	3,855	1,848	6,982	7,696	1,722	22,103	21,747
Due to other governments	51,344	173,894	-	58,585	-	283,823	-
Bonds payable, net	-	-	-	-	110,000	110,000	-
Total current liabilities	460,800	8,726,642	133,527	90,355	384,460	9,795,784	94,034
Noncurrent liabilities:							
Compensated absences	42,830	22,363	81,053	86,500	22,033	254,779	248,616
Due to other governments	387,773	71,718,122	-	761,602	-	72,867,497	-
Bonds payable, net	-	25,774,415	-	-	1,705,491	27,479,906	-
Pension obligation	228,522	339,979	316,976	181,995	178,106	1,245,579	932,683
Total noncurrent liabilities	659,126	97,854,879	398,029	1,030,097	1,905,631	101,847,760	1,181,299
Total liabilities	1,119,926	106,581,520	531,556	1,120,452	2,290,091	111,643,544	1,275,333
<b>Deferred Inflows of Resources</b>							
Pension	45,208	68,970	62,792	36,392	35,220	248,582	169,083
Total deferred inflows of resources	45,208	68,970	62,792	36,392	35,220	248,582	169,083
Total liabilities and deferred inflows of resources	1,165,134	106,650,490	594,348	1,156,843	2,325,311	111,892,126	1,444,416
<b>Net Position</b>							
Net investment in capital assets	20,367,786	15,429,937	257,313	2,475,847	2,664,623	41,195,505	6,067,512
Restricted for:							
Capital projects	81,928	10,522,173	-	-	-	10,604,101	-
Debt service	-	-	-	-	257,000	257,000	-
Unrestricted	10,917,506	22,747,728	2,759,041	2,632,098	1,290,883	40,347,256	9,476,996
Total net position	\$ 31,367,219	\$ 48,699,839	\$ 3,016,354	\$ 5,107,945	\$ 4,212,506	\$ 92,403,863	\$ 15,544,508

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

Note: Totals may not foot due to rounding.

City of Oak Harbor  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2017

	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste and Solid Waste Reserve Fund	Storm Drain and Storm Drain Reserve Fund	Marina and Marina Reserve Fund	Total Enterprise Funds	Governmental Activities Internal Service Funds
<b>Operating Revenues</b>							
Charges for services	\$ 6,262,174	\$ 8,063,589	\$ 3,603,981	\$ 1,857,738	\$ 1,415,523	\$ 21,203,005	\$ 2,768,260
System development revenue	137,105	76,479	-	-	-	213,584	-
Other operating revenues	2,000	1,292	-	23,676	-	26,967	3,044,809
Total operating revenues	6,401,278	8,141,359	3,603,981	1,881,414	1,415,523	21,443,556	5,813,069
<b>Operating Expenses</b>							
Cost of sales and service	2,465,745	793,494	720,926	407,338	686,019	5,073,523	2,486,559
Contractual services	30,166	115,302	11,120	107,623	31,551	295,761	337,578
Utilities	19,228	309,544	1,324,150	-	93,986	1,746,908	63,000
Taxes	683,383	623,974	380,314	136,265	5,233	1,829,169	-
Repairs and maintenance	54,865	81,929	333,631	63,467	15,903	549,795	106,669
Other operating expenses	1,366,038	1,473,676	1,056,209	584,195	259,434	4,739,552	862,119
Insurance claims and expenses	54,479	103,294	29,288	17,359	25,074	229,494	54,634
Depreciation	991,362	800,612	27,318	248,308	127,073	2,194,672	722,455
Total operating expenses	5,665,266	4,301,824	3,882,957	1,564,555	1,244,273	16,658,874	4,633,014
Operating income (loss)	736,013	3,839,535	(278,975)	316,860	171,250	4,784,683	1,180,056
<b>Nonoperating Revenues (Expenses)</b>							
Interest revenue	46,674	148,008	25,985	13,070	8,243	241,980	8,331
External subsidies	-	682,804	-	-	27,073	709,877	-
Other nonoperating revenues	20,834	18,982	1,057	6,779	54,140	101,793	1,924
Gain (loss) on sale of fixed assets	8,092	68,418	-	-	-	76,510	16,126
Interest expense and related charges	(2,303)	(275,930)	-	(2,112)	(76,976)	(357,319)	-
Insurance recoveries	-	-	-	-	171,866	171,866	951
Total nonoperating revenues (expenses)	73,298	642,283	27,042	17,737	184,346	944,706	27,332
Income (loss) before contributions and transfers	809,310	4,481,818	(251,933)	334,597	355,597	5,729,389	1,207,388
Capital contributions	-	148,000	-	-	-	148,000	-
Transfers in	-	-	-	-	-	-	59,921
Transfers out	(4,300)	(454,300)	(4,300)	(4,300)	-	(467,200)	(59,921)
Change in net position	805,010	4,175,518	(256,233)	330,297	355,597	5,410,189	1,207,388
Total net position - beginning	30,562,209	44,524,321	3,272,587	4,777,648	3,856,909	86,993,674	14,337,120
Total net position - ending	\$ 31,367,219	\$ 48,699,839	\$ 3,016,354	\$ 5,107,945	\$ 4,212,506	\$ 92,403,863	\$ 15,544,508

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

Note: Totals may not foot due to rounding.

**City of Oak Harbor**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2017**

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Water and Water Reserve Fund	Sewer and Sewer Reserve Fund	Solid Waste and Solid Waste Reserve Fund	Storm Drain and Storm Drain Reserve Fund	Marina and Marina Reserve Fund	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows From Operating Activities</b>							
Cash receipts from customers	\$ 6,376,744	\$ 6,028,860	\$ 3,577,640	\$ 1,833,732	\$ 1,239,436	\$ 19,056,412	\$ -
Receipts from interfund services provided	2,000	1,292	-	23,676	-	26,967	5,813,069
Payments to suppliers	(2,860,693)	2,788,540	(2,059,870)	(434,750)	(469,037)	(3,035,811)	(1,720,017)
Payments to employees	(326,800)	(482,936)	(439,407)	(267,493)	(272,925)	(1,789,562)	(1,321,006)
Payments for interfund services used	(1,381,041)	(1,286,008)	(1,368,009)	(603,382)	(233,183)	(4,871,623)	(897,272)
Net cash provided (used) by operating activities	1,810,210	7,049,746	(289,646)	551,783	264,291	9,386,384	1,874,775
<b>Cash Flows From Noncapital Financing Activities</b>							
Transfers from other funds	-	-	-	-	-	-	59,921
Transfers to other funds	(4,300)	(454,300)	(4,300)	(4,300)	-	(467,200)	(59,921)
Receipts from miscellaneous revenues	20,834	18,982	1,057	6,779	81,213	128,865	2,876
Net cash provided (used) by noncapital financing activities	16,534	(435,318)	(3,243)	2,479	81,213	(338,335)	2,876
<b>Cash Flows From Capital and Related Financing Activities</b>							
Proceeds from capital debt	-	54,677,630	-	-	-	54,677,630	-
Principal paid on capital debt	(51,344)	(45,386)	-	(58,585)	(109,427)	(264,742)	-
Interest paid on capital debt	(2,452)	(1,436,613)	-	(2,197)	(77,251)	(1,518,513)	-
Purchases of capital assets	(1,721,510)	(56,126,146)	-	(21,948)	(194,635)	(58,064,239)	(224,256)
Proceeds from sales of capital assets	8,092	68,418	-	-	-	76,510	16,126
Proceeds from insurance	-	-	-	-	171,866	171,866	-
Capital grants and contributions	-	682,804	-	-	-	682,804	-
Net cash provided (used) by capital and related financing activities	(1,767,215)	(2,179,292)	-	(82,730)	(209,447)	(4,238,683)	(208,130)
<b>Cash Flows From Investing Activities</b>							
Proceeds from sale and maturity of investments	1,734,302	6,337,125	993,891	-	-	9,065,319	1,539,360
Purchase of investments	(1,294,485)	(6,041,050)	-	-	-	(7,335,535)	(1,643,604)
Interest and dividends received	46,674	148,008	25,985	13,070	8,243	241,980	8,331
Net cash provided (used) by investing activities	486,491	444,083	1,019,876	13,070	8,243	1,971,763	(95,913)
Net increase (decrease) in cash and cash equivalents	546,021	4,879,219	726,987	484,602	144,300	6,781,130	1,573,607
Balances - beginning of year	7,507,574	24,548,539	2,186,435	2,227,552	1,569,975	38,040,074	6,421,177
Balances - end of the year	\$ 8,053,595	\$ 29,427,758	\$ 2,913,422	\$ 2,712,154	\$ 1,714,275	\$ 44,821,204	\$ 7,994,784
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating Income	\$ 736,013	\$ 3,839,535	\$ (278,975)	\$ 316,860	\$ 171,250	\$ 4,784,683	\$ 1,180,056
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	991,362	800,612	27,318	248,308	127,073	2,194,672	722,455
Changes in assets and liabilities:							
Change in accounts receivable	(53,259)	(135,032)	(25,766)	(24,866)	(176,357)	(415,280)	-
Change in deposits receivable	-	(2,174,608)	-	-	-	(2,174,608)	-
Change in due from other governments	754	199,232	125	860	(795)	200,176	-
Change in inventories	-	-	-	-	(8,141)	(8,141)	(5,833)
Change in prepaids	(775)	(234)	(20)	(111)	(659)	(1,799)	(25,403)
Change in deferred outflows	22,100	28,090	28,672	17,309	16,177	112,348	82,085
Change in accounts payable	43,888	2,354,802	(12,213)	16,908	148,384	2,551,770	31,121
Change in deposits	29,971	(800)	(700)	-	1,065	29,535	-
Change in retainage	71,176	2,177,594	-	-	7,041	2,255,810	-
Change in compensated absences	5,379	1,408	14,323	16,219	2,392	39,720	31,089
Change in pension obligation	(69,867)	(90,916)	(88,975)	(66,171)	(49,335)	(365,265)	(268,169)
Change in deferred inflows	33,471	50,062	46,565	26,468	26,196	182,762	127,376
Net cash provided (used) by operating activities	\$ 1,810,210	\$ 7,049,746	\$ (289,646)	\$ 551,783	\$ 264,291	\$ 9,386,384	\$ 1,874,775
<b>Cash Reconciliation</b>							
Actual Balance - end of year	\$ 8,053,595	\$ 29,427,758	\$ 2,913,422	\$ 2,712,154	\$ 1,714,275	\$ 44,821,204	\$ 7,994,784
Balance - end of year out of balance	-	-	-	-	-	-	-
<b>Noncash Activities</b>							
Capital contributions	\$ -	\$ 148,000	\$ -	\$ -	\$ -	\$ 148,000	\$ -

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

---

---

## Notes to the Basic Financial Statements

### **Note 1 – Summary of Significant Accounting Policies**

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

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

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

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

***The Oak Harbor Library -***

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

***North Whidbey Park District -***

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

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

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

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

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

---

---

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

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

Additionally, the City reports the following fund types:

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

---

---

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

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

## **2. Proprietary Funds**

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

---

---

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

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

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

## **D. Budgetary Information**

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

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

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

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

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

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

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

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

---

---

### **3. Budgetary Compliance**

In 2017, there were no City funds that reported actual expenditures above budgeted appropriations.

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

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

The City had no funds with deficit net position.

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

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

It is the City's policy to invest all temporary cash surpluses (see Note 3 - Deposits and Investments). As of December 31, 2017, the Finance Director was holding \$69,547,410 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds based upon the fund's average cash balance. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The City also invests funds with the Washington State Local Governmental Investment Pool (LGIP). The City considers these funds to be cash and cash equivalents due to their highly liquid nature.

### **2. Investments**

In accordance with GASB 79, qualifying short-term investments in external 2a7-like pools with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. In accordance with GASB 31, all other investments are stated at fair value. The City uses quoted market prices at December 31, 2017 to establish the fair market value of investments and adjusts the carrying value accordingly. Investments are allocated to individual funds based on the fund's prorated percentage of cash balance at year end. As of December 31, 2017, the City had \$18,972,771 in investments (see Note 3 - Deposits and Investments).

### **3. Receivables**

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

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

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

---

---

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

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

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

#### **5. Inventories**

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

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

#### **6. Restricted Assets and Liabilities**

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

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

	<b>Governmental</b>	<b>Business-type</b>
Capital projects	\$ -	\$ 81,928
Customer deposits	300	141,071
Debt service	-	257,000
Impact fees	1,167,890	-
<b>Total restricted cash</b>	<b>\$ 1,168,190</b>	<b>\$ 479,999</b>

#### **7. Capital Assets**

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

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

The costs for normal maintenance and repairs are not capitalized.

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

---

---

the fiscal year is \$1,518,003. Of this amount, \$1,160,684 was included as part of the cost of capital assets under construction in connection with the Clean Water Facility.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

---

---

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

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

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

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

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

### **15. Pensions**

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

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

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

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

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

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

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

---

---

Assigned fund balance includes:

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

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

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

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

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

### ***18. Details of Fund Balance Classification***

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

	General Fund	Other Governmental Funds	Total
<b>Fund Balances:</b>			
<b>Unspendable for:</b>			
Prepays	\$ 128,130	\$ 498	\$ 128,628
<b>Restricted for:</b>			
Drug Seizure Program	10,009		10,009
Public Safety	2,123		2,123
Street Surface Improvements		2,482,374	2,482,374
Arterial Traffic Improvements		1,294,094	1,294,094
Transportation Capital Improvements		903,695	903,695
Paths And Trails Improvements		10,482	10,482
Tourism Promotion		728,164	728,164
Park Improvement Programs		264,195	264,195
Capital Facilities Plan		3,964,578	3,964,578
<b>Committed to:</b>			
Transportation Capital Improvements	-	370,110	370,110
Community Art Acquisition and Maintenance	-	103,651	103,651
Park Improvement Programs	-	265,234	265,234
Senior Services Program	-	128,053	128,053
Municipal Pier Capital Project	-	170,188	170,188
Windjammer Park	-	773,131	773,131
Stabilization Arrangement	3,800,699	-	3,800,699
<b>Assigned to:</b>			
Street Surface Improvements	-	180,000	180,000
Municipal Court	103,849	-	103,849
Office Operations	2,450	-	2,450
<b>Unassigned:</b>	5,824,620	-	5,824,620
<b>Total Fund Balances</b>	<b>\$9,871,880</b>	<b>\$ 11,638,448</b>	<b>\$21,510,328</b>

Note: Totals may not foot due to rounding.

#### F. General Fund Stabilization Arrangement

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

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

- (a) General Fund resources identified in the adopted budget for a fiscal year or any year of a fiscal biennium as contributions to the General Fund Revenue Stabilization Fund;

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

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

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

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

As of December 31, 2017, the cash balance for the Stabilization arrangement is \$3,800,699.

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

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

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

The City of Oak Harbor's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

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

The following is reconciliation of cash and cash equivalents as shown in the Government-wide Statement of Net Position as of December 31, 2017:

<b>Cash Reconciliation</b>	<b>Amount</b>
<b>Account Statements</b>	
Bank balances	\$ 53,639,300
Washington State Local Gov. Inv. Pool	18,465,809
<b>Total</b>	<b>\$ 72,105,109</b>
<b>Financial Statements</b>	
Cash and cash equivalents	\$ 71,195,599
Outstanding bank items	912,660
Cash on hand	(3,150)
<b>Total</b>	<b>\$ 72,105,109</b>

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

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

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

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

As of December 31, 2017 the City held the following investments at fair value:

Investments	Valuation Method	Fair Value	Maturity		
			Under 1 Year	1 - 2 Years	Over 2 Years
Federal Farm Credit Bank	Level 2	\$ 1,000,143	\$ 1,000,143		\$ -
Federal Home Loan Bank	Level 2	8,008,709	4,038,252	3,970,457	-
Federal Home Loan Mortgage Corp	Level 2	5,986,974	5,986,974		-
Federal National Mortgage	Level 2	3,976,945	1,986,385	1,990,560	-
<b>Total investments by fair value</b>		<b>\$18,972,771</b>	<b>\$13,011,754</b>	<b>\$ 5,961,017</b>	<b>\$ -</b>

Note: Totals may not foot due to rounding.

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

**Credit Risk.** Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The City's investment policy applies the prudent person standard; Investments will

---

---

be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The credit ratings on securities held by the City on December 31, 2017 were AA+ by Standard and Poor.

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

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

#### **Note 4 – Property Taxes**

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

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

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

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

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

The City's regular levy for 2017 was \$2.40260 per \$1,000 on an assessed valuation of \$1,739,180,817 for a regular levy of \$4,178,556.

## Note 5 – Capital Assets and Depreciation

Governmental-type capital assets activity for the year ended December 31, 2017 was as follows:

<b>Governmental Activities:</b>	<b>Beginning Balance</b>		<b>Increases</b>		<b>Decreases</b>	<b>Ending Balance</b>
	<b>1/1/2017</b>					<b>12/31/2017</b>
<b>Capital assets not being depreciated:</b>						
Land	\$ 10,823,875	\$ -	\$ -	\$ -	\$ 10,823,875	
Construction in progress	294,536	839,364	(253,685)		880,215	
Intangible assets	50,000	-	-		50,000	
<b>Total capital assets not depreciated:</b>	<b>\$ 11,168,411</b>	<b>\$ 839,364</b>	<b>\$ (253,685)</b>		<b>\$ 11,754,090</b>	
<b>Assets depreciated:</b>						
Buildings	\$ 11,364,994	-	\$ -	\$ -	\$ 11,364,994	
Capital lease	138,572	-	-		138,572	
Improvements & infrastructure	35,867,729	45,819	(22,428)		35,891,119	
Machinery & equipment	13,165,726	531,587	(459,520)		13,237,793	
<b>Total capital assets depreciated:</b>	<b>\$ 60,537,020</b>	<b>\$ 577,405</b>	<b>\$ (481,948)</b>		<b>\$ 60,632,478</b>	
<b>Less accumulated depreciation:</b>						
Buildings	\$ (5,843,194)	\$ (227,886)	\$ -	\$ -	\$ (6,071,081)	
Capital lease	(138,572)	-	-		(138,572)	
Improvements & infrastructure	(25,138,293)	(702,889)	13,083		(25,828,099)	
Machinery & equipment	(8,606,099)	(770,605)	454,800		(8,921,904)	
<b>Total accumulated depreciation:</b>	<b>\$ (39,726,158)</b>	<b>\$ (1,701,380)</b>	<b>\$ 467,883</b>		<b>\$ (40,959,656)</b>	
<b>Total capital assets depreciated (net):</b>	<b>\$ 20,810,862</b>	<b>\$ (1,123,975)</b>	<b>\$ (14,065)</b>		<b>\$ 19,672,822</b>	
<b>Governmental activities total capital assets (net):</b>	<b>\$ 31,979,273</b>	<b>\$ (284,612)</b>	<b>\$ (267,750)</b>		<b>\$ 31,426,912</b>	

Note: Totals may not foot due to rounding.

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

<b>Governmental Activities:</b>	
General governmental	\$ 44,062
Public safety	81,207
Transportation	694,312
Natural & economic environment	9,664
Social Services	17,451
Cultural and recreational	132,230
Internal service	722,455
<b>Total depreciation expense - governmental activities</b>	<b>\$ 1,701,380</b>

Note: Totals may not foot due to rounding.

Business-type capital assets activity for the year ended December 31, 2017 was as follows:

<b>Business-type Activities:</b>	<b>Beginning Balance</b>		<b>Ending Balance</b>	
	<b>1/1/2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>12/31/2017</b>
<b>Capital assets not being depreciated:</b>				
Land	\$ 5,108,166	\$ -	\$ -	\$ 5,108,166
Construction in progress	\$ 36,009,465	57,792,364	(954,322)	92,847,507
<b>Total capital assets not depreciated:</b>	<b>\$ 41,117,632</b>	<b>\$ 57,792,364</b>	<b>\$ (954,322)</b>	<b>\$ 97,955,674</b>
<b>Capital assets being depreciated:</b>				
Buildings	\$ 4,827,161	\$ -	\$ -	\$ 4,827,161
Improvements	\$ 69,715,692	2,493,036	-	72,208,728
Machinery & equipment	\$ 5,130,912	57,211	(427,020)	4,761,103
<b>Total capital assets depreciated:</b>	<b>\$ 79,673,765</b>	<b>\$ 2,550,247</b>	<b>\$ (427,020)</b>	<b>\$ 81,796,992</b>
<b>Less accumulated depreciation:</b>				
Buildings	\$ (2,495,271)	\$ (114,640)	\$ -	\$ (2,609,911)
Improvements	\$ (31,607,081)	(1,868,523)	-	(33,475,604)
Machinery & equipment	\$ (4,040,071)	(211,510)	411,653	(3,839,928)
<b>Total accumulated depreciation:</b>	<b>\$ (38,142,423)</b>	<b>\$ (2,194,672)</b>	<b>\$ 411,653</b>	<b>\$ (39,925,443)</b>
<b>Total capital assets depreciated (net):</b>	<b>\$ 41,531,342</b>	<b>\$ 355,575</b>	<b>\$ (15,367)</b>	<b>\$ 41,871,550</b>
<b>Business-type activities total capital assets (net):</b>	<b>\$ 82,648,974</b>	<b>\$ 58,147,938</b>	<b>\$ (969,689)</b>	<b>\$ 139,827,223.39</b>

Note: Totals may not foot due to rounding.

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

<b>Business-type Activities:</b>	
Water	\$ 991,362
Sewer	800,612
Solid waste	27,318
Storm drain	248,308
Marina	127,073
<b>Total depreciation expense - business-type activities</b>	<b>\$ 2,194,672</b>

The City has the following active construction projects as of December 31, 2017:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Wastewater Treatment Plant	\$ 89,796,801	\$ 44,001,400
Scenic Heights Outfall	26,279	19,228
F-Dock Repairs	237,531	117,594
Crescent Harbor/Regatta Water Main	7,839	32,121
Cross City Water Transmission	28,170	395,339
2018 Water Main Replacement	18,007	71,043
Windjammer Park Phase 1	700,736	268,990
<b>Total</b>	<b>\$ 90,815,364</b>	<b>\$ 44,905,714</b>

---

---

## **Note 6 – Pension Plans**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	(\$4,881,410)
Pension assets	1,594,339
Deferred outflows of resources	1,124,291
Deferred inflows of resources	(1,384,008)
Pension expense/expenditures	417,978

### **State Sponsored Pension Plans**

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### **Contributions**

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan

---

---

1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
July - December 2017		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>

The City's actual contributions to the plan were \$344,676 for the year ended December 31, 2017.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

### **Contributions**

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee

---

---

contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January - June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July - December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

The City's actual contributions to the plan were \$444,217 for the year ended December 31, 2017.

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

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

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

PSERS membership includes:

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

PSERS covered employers include:

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

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each

year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3% per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

### **Contributions**

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. In addition to the regular change in contribution rates on July 1, 2017, PSERS contribution rates changed again September 1, 2017 due to HB 1709, which allows PERS members meeting specific criteria to transfer service credit into PSERS as long as they and their employer pay the difference between the PERS and PSERS contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2017 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January - June 2017:		
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.54%</b>	<b>6.59%</b>
July - August 2017		
PSERS Plan 2	6.73%	6.73%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.94%</b>	<b>6.73%</b>
September - December 2017		
PSERS Plan 2	6.74%	6.74%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.95%</b>	<b>6.74%</b>

The City's actual contributions to the plan were \$22,233 for the year ended December 31, 2017.

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

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

---

---

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

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

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

### **Contributions**

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute 0%, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18% of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3% for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

### **Contributions**

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18%. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January - June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>
July - December 2017		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>

The City's actual contributions to the plan were \$162,661 for the year ended December 31, 2017.

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

---

---

For the state fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$896,028.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised

### **Discount Rate**

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

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

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

The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market

assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%
	<b>100.00%</b>	

### Sensitivity of NPL

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

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	(\$3,176,914)	(\$2,607,895)	(\$2,115,002)
PERS 2/3	(6,071,086)	(2,253,471)	874,499
PSERS 2	(134,593)	(20,045)	69,768
LEOFF 1	115,569	155,803	190,355
LEOFF 2	(298,913)	1,381,307	2,750,279

### Pension Plan Fiduciary Net Position

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

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

#### Pension (Liabilities) Assets

At June 30, 2017, the City reported a total pension liability of \$4,881,411 for its proportionate share of the net pension liabilities and a total pension asset of \$1,537,110 for its proportionate share of the net pension assets as follows.

(Liability)	Asset
PERS 1	(\$2,607,895)
PERS 2/3	(2,253,471)
PSERS 2	(20,045)
LEOFF 1	155,803
LEOFF 2	1,381,307

The amount of the asset reported above for LEOFF Plan 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$155,803	\$1,381,306
State's proportionate share of the net pension asset associated with the employer	1,053,850	896,028
<b>Total</b>	<b>\$1,209,653</b>	<b>\$2,277,334</b>

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

Plan	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.057656%	0.054960%	-0.002696%
PERS 2/3	0.066965%	0.064857%	-0.002108%
PSERS 2	0.096576%	0.102306%	0.005730%
LEOFF 1	0.010085%	0.010269%	0.000184%
LEOFF 2	0.108453%	0.099541%	-0.008912%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12% of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88% of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65% of employer contributions.

The collective net pension (liability) asset was measured as of June 30, 2017, and the actuarial valuation date on which the total pension (liability) asset is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

---

---

### ***Pension Expense***

For the year ended December 31, 2017, the City recognized pension expense as follows:

<b>Pension Expense</b>	
PERS 1	17,318
PERS 2/3	320,830
PSERS 2	27,904
LEOFF 1	(26,859)
LEOFF 2	47,044
Total	386,237

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

At December 31, 2017, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(97,319)
Changes of assumptions	-	-
Contributions subsequent to the measurement date	179,681	-
<b>Total</b>	<b>\$ 179,681</b>	<b>\$ (97,319)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 228,330	\$ (74,113)
Net difference between projected and actual investment earnings on pension plan investments	-	(600,721)
Changes of assumptions	23,936	-
Changes in proportion and differences between contributions and proportionate share of contributions	173,020	(149,716)
Contributions subsequent to the measurement date	245,738	-
<b>Total</b>	<b>\$ 671,024</b>	<b>\$ (824,550)</b>

<b>PSERS 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 11,855	\$ (1,424)
Net difference between projected and actual investment earnings on pension plan investments	-	(14,059)
Changes of assumptions	170	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,029	(220)
Contributions subsequent to the measurement date	11,247	-
<b>Total</b>	<b>\$ 24,301</b>	<b>\$ (15,703)</b>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(14,478)
Changes of assumptions	-	-
Contributions subsequent to the measurement date	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ (14,478)</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 60,711	\$ (52,381)
Net difference between projected and actual investment earnings on pension plan investments	-	(310,113)
Changes of assumptions	1,663	-
Changes in proportion and differences between contributions and proportionate share of contributions	103,070	(69,463)
Contributions subsequent to the measurement date	83,840	-
<b>Total</b>	<b>\$ 249,284</b>	<b>\$ (431,958)</b>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>PSERS 2</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2018	(\$65,782)	(\$224,546)	(\$2,920)	(\$9,086)	(\$143,139)
2019	20,768	109,652	2,603	2,450	31,591
2020	(4,822)	(48,811)	775	(979)	(21,958)
2021	(47,484)	(253,927)	(2,858)	(6,864)	(143,530)
2022	-	7,987	(28)	-	1,879
Thereafter	-	10,383	(220)	-	8,643

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

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

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

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for

---

---

25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

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

### **Contributions**

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

The contribution rates for 2017 were as follows:

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

The City's actual contributions to the plan were \$480 for the year ended December 31, 2017. The City has opted to pay members' fees on their behalf. Contributions on behalf of members were \$660 for the year ended December 31, 2017.

In accordance with Chapter 41.24 RCW, the state contributes 40% of the fire insurance premium tax to the plan. For fiscal year 2017, the fire insurance premium tax contribution was \$6.6 million.

### **Actuarial Assumptions**

The total pension liability for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2016, and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 2.75%
- Salary increases: N/A
- Investment rate of return: 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2016 valuation report.

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

### **Discount Rate**

The discount rate used to measure the total VFFRPF pension asset was 7%. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included as assumed 7% long-term discount rate to determine

funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7% future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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

The long-term expected rate of return on the VFFRPF pension plan investments of 7% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%
	<b>100.00%</b>	

### ***Sensitivity of NPL***

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

	<b>1% Decrease (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
VFFRPF	\$21,432	\$57,229	\$88,173

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

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

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

At June 30, 2017, the City reported an asset of \$57,229 for its proportionate share of the VFFRPF plan's net pension asset. The City's proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2017, the City's proportion was 0.15426%.

---

---

The VFFRPF collective net pension asset was measured as of June 30, 2017, and the actuarial valuation date on which the total pension asset is based was as of June 30, 2016, with update procedures used to roll forward the total pension asset to the measurement date.

For the year ended December 31, 2017, the City recognized pension expense of \$31,741. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

#### **Note 7 – Risk Management**

The City of Oak Harbor is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 161 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

The City proactively participates in on-going training for staff regarding current practices and risk mitigation procedures in order to effectively limit claims loss exposure. No claims in any of the past three years exceeded the City's insurance coverage. None of the current claims or lawsuits made or expected to be made against the City appear to have any reasonable likelihood of significantly affecting the City's financial situation for 2017.

---

---

### **Note 8 – Short-term Debt**

The City has no outstanding anticipation notes (including anticipation notes that are accounted for as long-term debt), interest-bearing (registered or revenue) warrants, or similar contractual debt in 2017 nor were any issued during the year.

### **Note 9 – Long-term Debt**

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

### **Bonds**

#### ***General Obligation Bond***

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

General obligation debt currently outstanding is as follows:

<b>Purpose</b>	<b>Maturity Range</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Amount of Installments</b>
2011 OAKLTGO11	2030	3.00% - 4.40%	\$2,570,000	\$1,825,000

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

<b>Year Ending December 31,</b>	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2018	\$ -	\$ -	\$110,000	\$73,378
2019	-	-	115,000	70,078
2020	-	-	120,000	66,340
2021	-	-	125,000	62,440
2022	-	-	125,000	57,440
2023-2027	-	-	725,000	205,600
2028-2030	-	-	505,000	45,100
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,825,000</b>	<b>\$580,376</b>

At December 31, 2017, the City has restricted assets in proprietary funds containing \$257,000 in reserves as required by bond indentures.

#### ***Revenue Bonds***

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

Revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
2016 OAKWA16	2046	3.13% - 4.00%	\$25,720,000	\$25,720,000

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

Year Ending December 31,	Principal	Interest
2018	\$0	\$855,191
2019	0	855,191
2020	0	855,191
2021	0	855,191
2022	0	855,191
2023-2027	0	4,275,956
2028-2032	0	4,275,956
2033-2037	1,205,000	4,275,956
2038-2042	12,750,000	3,178,590
2043-2046	11,765,000	971,263
<b>Total</b>	<b>\$25,720,000</b>	<b>\$21,253,678</b>

## Government Loans

### *Public Works Trust Fund Loans*

The City of Oak Harbor is also liable for balances due to other governments for Public Works Trust Fund (PWTF) loans. Two of these loans were entered into for the replacement of the City's water transmission line, as required by the Washington State Department of Transportation. They have a combined outstanding balance of \$439,118 and the debt service will be repaid from Water Fund revenue. The third loan was for the replacement of the 42" storm drain outfall. The outstanding balance of \$820,187 will be repaid from the Storm Drain Fund revenues.

PWTF loans currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
PW-05-691-042	2025	0.50%	\$436,642	\$183,849
PW-06-962-031	2026	0.50%	\$538,900	\$255,268
PW-12-951-048	2031	0.25%	\$985,584	\$820,187

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

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>
2018	\$109,929	\$4,246
2019	109,929	3,843
2020	109,929	3,440
2021	109,929	3,037
2022	109,929	2,633
2023-2027	475,320	7,234
2028-2031	234,339	1,465
<b>Total</b>	<b>\$1,259,304</b>	<b>\$25,897</b>

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

Department of Ecology loans are payable from revenues generated by the City's Sewer Fund. Of the \$101,016,317 awarded, only \$71,892,016 was outstanding at December 31, 2017. The loan for the construction of the Sewer Outfall has an outstanding balance of \$2,593,576, while the remaining loans for the Clean Water Facility had an outstanding balance of \$69,298,440.

Total SRF loans awarded are as follows:

<b>Purpose</b>	<b>Maturity Range</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Amount of Installments</b>
WQC-2015 OakHar-00110	2036	2.70%	\$2,637,085	\$2,593,576
WQC-2015 OakHar-00021	2037	2.70%	\$8,699,275	\$8,699,275
WQC-2016 OakHar-00240	2038	1.90%	\$15,832,311	\$15,832,311
WQC-2017 OakHar-00081	2038	1.60%	\$44,766,854	\$44,766,854
WQC-2018 OakHar-00112	2038	1.20%	\$29,124,301	\$29,124,301

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

<b>Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>
2018	\$173,894	\$293,989
2019	1,775,897	1,674,203
2020	4,517,859	1,622,207
2021	4,592,630	1,547,436
2022	4,668,727	1,471,339
2023-2027	24,533,247	6,167,084
2028-2032	26,649,562	4,050,768
2033-2037	28,785,834	1,738,864
2038	5,318,667	61,265
<b>Total</b>	<b>\$101,016,317</b>	<b>\$18,627,154</b>

#### ***Washington State LOCAL Loan***

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

The LOCAL loan currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
OAK0361-2-1	2025	2.36%	\$465,837	\$394,151

Balances due for the debt service requirements on the LOCAL loan to maturity are as follows:

Year Ending December 31,	Principal	Interest
2018	\$41,575	\$9,625
2019	43,654	8,533
2020	45,837	7,386
2021	48,129	6,181
2022	50,535	4,916
2023-2026	164,422	8,014
<b>Total</b>	<b>\$394,151</b>	<b>\$44,655</b>

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

##### **Operating Leases**

The City of Oak Harbor leases office building and other equipment under non-cancelable operating leases. Total cost for such leases was \$85,215 for the year ending December 31, 2017. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2018	55,225
2019	36,043
2020	15,632
2021	1,711
2022	-
<b>Total</b>	<b>\$108,611</b>

##### **Capital Leases**

The City has no capital lease agreements and did not enter into any capital lease agreements during 2017.

##### **Contracts**

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

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

The asset acquired through this agreement is as follows:

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

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

During the year ended December 31, 2017, the following changes occurred in long-term liabilities (inclusive of both portions due within one year and due in more than one year):

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
<b>Governmental Activities:</b>					
Due to other governments:					
LOCAL COP	\$ 433,747	\$ -	\$ (39,595)	\$ 394,151	\$ 41,575
Premium	49,140	-	(9,550)	39,589	
OPEB obligation	1,052,965	176,425	(76,086)	1,153,304	
Pension obligation	4,898,233	-	(1,262,402)	3,635,832	
Compensated absences	1,359,487	169,407	-	1,528,894	117,884
<b>Government activity long-term liabilities:</b>	<b>\$ 7,793,572</b>	<b>\$ 345,832</b>	<b>\$ (1,387,634)</b>	<b>\$ 6,751,770</b>	<b>\$ 159,459</b>
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 1,935,000	\$ -	\$ (110,000)	\$ 1,825,000	\$ 110,000
Revenue bonds	25,720,000	-	-	25,720,000	-
Premium	60,865	-	(2,136)	58,728	
Discount	(14,655)	-	833	(13,822)	
Total bonds payable:	27,701,209	-	(111,303)	27,589,906	110,000
Due to other governments:					
PWTF loans	1,369,233	-	(109,929)	1,259,304	109,929
SRF loans	17,257,895	54,677,630	(43,509)	71,892,016	173,894
Pension obligation	1,610,843	-	(365,265)	1,245,579	
Compensated absences	237,162	39,720	-	276,882	22,103
<b>Business-type activity long-term liabilities</b>	<b>\$ 48,176,343</b>	<b>\$ 54,717,350</b>	<b>\$ (630,006)</b>	<b>\$ 102,263,687</b>	<b>\$ 415,927</b>

#### **Note 12 – Contingencies and Litigations**

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

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

### **Note 13 – Restricted Components of Net Position**

The government-wide statement of net position reports \$21,918,003 of restricted components of net position which is restricted by statute or enabling legislation.

### **Note 14 – Interfund Balances and Transfers**

#### **Interfund Balances**

Due to other funds and due from other funds results from goods issued, work performed, or services rendered to or for the benefit of another fund when cash is not immediately moved between the funds. There were no interfund balances at December 31, 2017.

#### **Interfund Transfers**

The primary purpose of interfund transfers is to support the operations of other funds and contribution for capital projects. Interfund transfers at December 31, 2017 were as follows:

<b>Fund</b>	<b>Transfer In</b>	<b>Transfer Out</b>
General	\$ 17,200	\$ (1,115,323)
Nonmajor governmental	1,809,907	(244,583)
Water	-	(4,300)
Sewer	-	(454,300)
Solid waste	-	(4,300)
Storm drain	-	(4,300)
Internal service	59,921	(59,921)
<b>Total</b>	<b>\$ 1,887,028</b>	<b>\$ (1,887,028)</b>

#### **Interfund Loan Activity**

There were no interfund loans during 2017.

### **Note 15 – Receivable and Payables Balances**

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

Receivables at December 31, 2017 were as follows:

<b>Receivables:</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Property taxes	\$ 78,687	\$ -	\$ 78,687
Municipal court	868,185	-	868,185
Customer accounts	131	2,260,500	2,260,632
Special assessments	9,144	-	9,144
Other accounts	45,095	-	45,095
Deposits	-	3,116,100	3,116,100
Other taxes	1,098,189	9,572	1,107,761
Grants	6,523	-	6,523
Insurance	-	166,135	166,135
Gross receivables	2,105,953	5,552,308	7,658,261
Less: allowance for uncollectible	(764,336)	-	(764,336)
<b>Net total receivables</b>	<b>\$ 1,341,617</b>	<b>\$ 5,552,308</b>	<b>\$ 6,893,925</b>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. Total governmental activities unearned revenue at December 31, 2017 was \$37,991.

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

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

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

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

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

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

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

The City's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years as of January 1, 2016. The following table shows the components of the City's annual OPEB cost and the change in the City net OPEB obligation (NOO). The NOO of \$1,153,304 is included as a noncurrent liability on the Statement of Net Position.

Fiscal Year Ending 12/31/2017	
<b>Determination of annual required contribution</b>	
Normal costs at year end	\$ -
Amortization of unfunded actuarial accrued liabilities (UAAL)	229,011
Annual required contribution (ARC)	\$229,011
<b>Determination of net OPEB obligation (NOO)</b>	
Annual required contribution	\$ 229,011
Interest on NOO	42,119
Adjustments to ARC	(94,705)
Annual OPEB cost	176,425
Contribution	(76,086)
Increase (decrease) in NOO	100,339
NOO - beginning	1,052,965
NOO - ending	\$ 1,153,304

#### ***Funded Status and Funding Progress***

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligations
12/31/2017	\$176,425	43.13%	\$1,153,304
12/31/2016	207,168	44.67%	1,052,965
12/31/2015	229,248	38.58%	938,344

As of December 31, 2017, the plan was 0% funded. The City's actuarial value of assets, accrued liability, UAAL, covered payroll and UAAL as a percentage of covered payroll was as follows:

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2017	\$ -	\$2,546,238	\$2,546,238	0.00%	\$ -	NA
12/31/2016	-	2,824,408	2,824,408	0.00%	-	NA
12/31/2015	-	2,991,711	2,991,711	0.00%	-	NA

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

---

---

### **Actuarial Methods and Assumptions**

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

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

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

The City has above-ground fuel tanks at both the Public Works facility and at the city marina. Both fuel tank systems utilizes the VeederRoot monitoring system which performs a series of daily tests on the fuel tanks and reports, among other things, any unusual fuel level variances or leakage occurrences in the tanks. The systems have not indicated any leaks or contamination in 2017.

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

There have been no obligating events or issues of pollution remediation during 2017.

### **Note 18 – Other Disclosures**

#### **Prior Period Adjustment**

The City adjusted beginning fund balance to implement the proper method to accrue taxes per the recommendation by the State Auditor's Office. The following is a summary of those changes:

<b>Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances</b>			
	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
2016 Ending net position	\$ 9,380,507	\$ 9,484,982	\$ 18,865,489
Tax accrual adjustment	704,657	302,002	1,006,659
2017 Beginning net position	<b>\$ 10,085,164</b>	<b>\$ 9,786,985</b>	<b>\$ 19,872,148</b>

---

---

Government-wide Statement of Activities			
	Governmental	Business-type	Total
2016 Ending net position	\$ 55,107,934	\$ 86,993,674	\$ 142,101,608
Tax accrual adjustment	74,341	-	74,341
2017 Beginning net position	<b>\$ 55,182,275</b>	<b>\$ 86,993,674</b>	<b>\$ 142,175,949</b>

#### Subsequent Events

In April 2018, the City was awarded a State Capital Budget grant for \$727,500 for the restoration of Windjammer Park.

---

---

**Required Supplementary Information****Pensions****Schedule of Proportionate Share**

<b>Schedule of Proportionate Share of Net Pension Liability</b>			
<b>PERS 1</b>			
<b>As of June 30,</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Employer's proportion of the net pension liability	0.054960%	0.057656%	0.054069%
Employer's proportionate share of the net pension liability	(\$2,607,895)	(\$3,096,399)	(\$2,828,312)
Covered payroll	\$6,817,078	\$6,767,199	\$5,824,538
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	38.26%	45.76%	48.56%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%

<b>Schedule of Proportionate Share of Net Pension Liability</b>			
<b>PERS 2/3</b>			
<b>As of June 30,</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Employer's proportion of the net pension liability	0.064857%	0.066965%	0.058989%
Employer's proportionate share of the net pension liability	(\$2,253,471)	(\$3,371,635)	(\$2,107,711)
Covered payroll	\$6,363,072	\$6,312,419	\$5,233,775
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	35.41%	53.41%	40.27%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%

<b>Schedule of Proportionate Share of Net Pension Liability</b> <b>PSERS 2</b> <b>As of June 30,</b>			
	2017	2016	2015
Employer's proportion of the net pension liability	0.102306%	0.096576%	0.099662%
Employer's proportionate share of the net pension liability	(\$20,045)	(\$41,043)	(\$18,190)
Covered payroll	\$362,627	\$313,078	\$291,813
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5.53%	13.11%	6.23%
Plan fiduciary net position as a percentage of the total pension liability	96.26%	90.41%	95.08%

<b>Schedule of Proportionate Share of Net Pension Asset</b> <b>LEOFF 1</b> <b>As of June 30,</b>			
	2017	2016	2015
Employer's proportion of the net pension asset	0.010269%	0.010085%	0.010003%
Employer's proportionate share of the net pension asset	\$155,803	\$103,904	\$120,558
State's proportionate share of the net pension asset associated with the employer	1,053,850	702,806	815,453
Total	<u>\$1,209,653</u>	<u>\$806,710</u>	<u>\$936,011</u>
Covered payroll	\$0	\$0	\$0
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	NA	NA	NA
Plan fiduciary net position as a percentage of the total pension asset	135.96%	123.74%	127.36%

<b>Schedule of Proportionate Share of Net Pension Asset</b> <b>LEOFF 2</b> <b>As of June 30,</b>			
	2017	2016	2015
Employer's proportion of the net pension asset	0.099541%	0.108453%	0.095575%
Employer's proportionate share of the net pension asset	\$1,381,307	\$630,795	\$982,320
State's proportionate share of the net pension asset associated with the employer	896,028	411,233	649,516
Total	<u>\$2,277,335</u>	<u>\$1,042,028</u>	<u>\$1,631,836</u>
Covered payroll	\$3,113,818	\$3,285,501	\$2,773,970
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	73.14%	31.72%	58.83%
Plan fiduciary net position as a percentage of the total pension asset	113.36%	106.04%	111.67%

<b>Schedule of Proportionate Share of Net Pension Asset</b> <b>VFFRPF</b> <b>As of June 30,</b>			
	2017	2016	2015
Employer's proportion of the net pension asset	0.154256%	0.514359%	0.370000%
Employer's proportionate share of the net pension asset	\$57,229	\$88,310	\$71,915
Covered payroll	\$86,474	\$98,384	\$102,197
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	66.18%	89.76%	70.37%
Plan fiduciary net position as a percentage of the total pension asset	119.25%	108.97%	110.22%

### **Schedule of Employer Contributions**

<b>Schedule of Employer Contributions</b> <b>PERS 1</b> <b>As of December 31,</b>			
	2017	2016	2015
Statutorily or contractually required contributions	\$344,676	\$332,568	\$293,354
Contributions in relation to the statutorily or contractually required contributions	(344,676)	(332,568)	(293,354)
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$6,902,190	\$6,884,216	\$6,143,382
Contributions as a percentage of covered employee payroll	4.99%	4.83%	4.78%

<b>Schedule of Employer Contributions</b> <b>PERS 2/3</b> <b>As of December 31,</b>			
	2017	2016	2015
Statutorily or contractually required contributions	\$444,217	\$399,130	\$328,398
Contributions in relation to the statutorily or contractually required contributions	(444,217)	(399,130)	(328,398)
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$6,474,592	\$6,440,650	\$5,831,914
Contributions as a percentage of covered employee payroll	6.86%	6.20%	5.63%

<b>Schedule of Employer Contributions</b> <b>PSERS 2</b> <b>As of December 31,</b>			
	2017	2016	2015
Statutorily or contractually required contributions	\$22,233	\$23,234	\$20,172
Contributions in relation to the statutorily or contractually required contributions	(22,233)	(23,234)	(20,172)
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$333,659	\$352,978	\$311,468
Contributions as a percentage of covered employee payroll	6.66%	6.58%	6.48%

<b>Schedule of Employer Contributions</b> <b>LEOFF 1</b> <b>As of December 31,</b>			
	2017	2016	2015
Statutorily or contractually required contributions	\$0	\$0	\$0
Contributions in relation to the statutorily or contractually required contributions	0	0	0
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$0	\$0	\$0
Contributions as a percentage of covered employee payroll	NA	NA	NA

<b>Schedule of Employer Contributions</b> <b>LEOFF 2</b> <b>As of December 31,</b>			
	2017	2016	2015
Statutorily or contractually required contributions	\$162,661	\$154,848	\$162,389
Contributions in relation to the statutorily or contractually required contributions	(162,661)	(154,848)	(162,389)
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$3,157,762	\$3,066,293	\$3,215,624
Contributions as a percentage of covered employee payroll	5.15%	5.05%	5.05%

<b>Schedule of Employer Contributions</b> <b>VFFRPF</b> <b>As of December 31,</b>			
	2017	2016	2015
Statutorily or contractually required contributions	\$330	\$390	\$390
Contributions in relation to the statutorily or contractually required contributions	(330)	(390)	(390)
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$86,474	\$98,384	\$102,197
Contributions as a percentage of covered employee payroll	0.38%	0.40%	0.38%

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

# **LEOFF 1 OPEB Medical Benefits**

## ***Schedule of Funding Progress***

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2017	\$ -	\$2,546,238	\$2,546,238	0.00%	\$ -	NA
12/31/2016	-	2,824,408	2,824,408	0.00%	-	NA
12/31/2015	-	2,991,711	2,991,711	0.00%	-	NA
12/31/2014	-	2,321,676	2,321,676	0.00%	32,780	7082.60%
12/31/2013	-	2,351,545	2,351,545	0.00%	98,340	2391.24%

## **Schedule of Employer Contributions**

Fiscal Year Ended	Employer Contributions	Other Contributing Entities	Annual Required Contributions (ARC)	Percentage of ARC Contributed
12/31/2017	\$76,086	\$ -	\$229,011	33.22%
12/31/2016	92,547	-	254,030	36.43%
12/31/2015	88,433	-	269,078	32.87%
12/31/2014	73,780	-	208,814	35.33%
12/31/2013	61,160	-	224,112	27.29%

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>