



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Oak Harbor

For the period January 1, 2020 through December 31, 2020

Published December 2, 2021

Report No. 1029423



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

December 2, 2021

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

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Oak Harbor January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
21.019	COVID-19 – Coronavirus Relief Fund

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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, 2020 through December 31, 2020

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, 2020, 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 16, 2021.

As discussed in Note 18 of the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown.

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 16, 2021

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Oak Harbor January 1, 2020 through December 31, 2020

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Oak Harbor, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy, State Auditor

Olympia, WA

November 16, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Oak Harbor January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Oak Harbor, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Streets funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 18 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2021 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.



Pat McCarthy, State Auditor

Olympia, WA

November 16, 2021

FINANCIAL SECTION

City of Oak Harbor January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Activities – 2020

Balance Sheet – Governmental Funds – 2020

Reconciliation of Balance Sheet to the Statement of Net Position – 2020

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2020

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2020

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2020

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Streets Fund – 2020

Statement of Net Position – Proprietary Funds – 2020

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2020

Statement of Cash Flows – Proprietary Funds – 2020

Notes to the Basic Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share – PERS 1, PERS 2/3, PSERS 2, LEOFF 1, LEOFF 2, VFFRPF – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS 2, LEOFF 1, LEOFF 2, VFFRPF – 2020 Information on Postemployment Benefits Other Than Pensions – 2020

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2020

Notes to the Schedule of Expenditures of Federal Awards – 2020

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, 2020. 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 2020 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 condition improved during 2020, as compared to 2019.
- City of Oak Harbor assets exceeded its liabilities at the close of the 2020 fiscal year by \$162.44 million (net position). Of this amount, \$56.26 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- Reported net position increased \$3.88 million. The overall net position of governmental activities increased \$2.12 million, or 2.97%, during 2020. Net position of business-type activities increased \$1.76 million, or 2.02%, during 2020.

- Total liabilities and deferred inflows decreased by \$6.30 million or 4.35%, primarily due to paying down the principal on the State Revolving Fund loans used to finance the Clean Water Facility.

- Overall, the net book value of capital assets decreased by \$1.66 million, or 0.74%. Total capital assets from governmental activities increased \$2.44 million or 5.83%. This increase is primarily due to the acquisition of land for Harbor Heights Park and the completion of an annex at the City's Public Works Complex. Capital assets of business-type activities decreased \$4.09 million or 2.25%. This net decrease is primarily due to accumulated depreciation 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 2020, the City's governmental funds reported combined ending fund balances of \$20.89 million. Approximately 56.63% of this total amount, or \$11.83 million, is available for spending at the government's discretion (committed, assigned, and unassigned fund balances). 53.65% or \$11.21 million is in the General Fund and 46.35% or \$9.68 million of the ending fund balances are recorded in the City's Special Revenue Funds; Debt Service and Capital Project Funds.

- At the end of the current fiscal year, the ending fund balance for the General Fund was \$11.21 million. Of this amount, 96.39%, or \$10.80 million, is available for spending (committed, assigned, and unassigned) 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. 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: seventeen individual governmental funds and ten 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, excluding any other major 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, 2020, totals \$162.46 million. Following is a condensed version of the government-wide statement of net position comparing fiscal year 2020 to 2019.

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$36,611,726	\$37,960,494	\$ 40,929,802	\$ 40,663,332	\$ 77,541,528	\$ 78,623,826
Capital assets(net)	44,204,833	41,767,963	177,930,082	182,023,835	222,134,915	223,791,798
Total assets	80,816,559	79,728,457	218,859,884	222,687,167	299,676,443	302,415,624
Deferred outflows of resources	1,062,104	873,986	344,902	213,185	1,407,006	1,087,170
Total assets and deferred outflows of resources	\$81,878,663	\$80,602,442	\$219,204,786	\$222,900,352	\$301,083,449	\$303,502,794
Current and other liabilities	\$ 990,885	\$ 1,065,745	\$ 9,664,456	\$ 10,254,639	\$ 10,655,341	\$ 11,320,384
Long-term liabilities	6,479,521	6,262,727	120,259,249	124,938,797	126,738,770	131,201,524
Total liabilities	7,470,406	7,328,472	129,923,705	135,193,436	137,394,111	142,521,908
Deferred inflows of resources	999,598	1,984,940	245,697	431,627	1,245,295	2,416,567
Total Liability and deferred inflows of resources	\$ 8,470,004	\$ 9,313,413	\$130,169,402	\$135,625,062	\$138,639,406	\$144,938,475
Net Position						
Net investment in capital assets	\$43,924,960	\$41,435,676	\$ 50,460,552	\$ 49,160,579	\$ 94,385,512	\$ 90,596,255
Restricted	11,288,656	12,369,410	513,928	499,134	11,802,584	12,868,544
Unrestricted	18,195,043	17,483,944	38,060,904	37,615,576	56,255,947	55,099,520
Total net position	\$73,408,659	\$71,289,030	\$ 89,035,384	\$ 87,275,290	\$162,444,043	\$158,564,319

Note: Totals may not foot due to rounding.

As of the end of 2020, the largest component of the City's total net position at \$94.39 million, or 58.10%, 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 \$11.80 million, or 7.27%, of the City's total net position is subject to legal restrictions.

The net position of governmental activities increased by \$2.12 million or 2.97% mainly due to an increase in capital assets from the acquisition of land for Harbor Heights Park and the completion of an annex facility at the City's Public Works complex. The net position of business-type activities increased \$1.76 million, or 2.02%, mainly due to building up a healthier cash position in the Water Fund.

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 2020 and 2019:

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
REVENUES						
Program revenues:						
Charges for services	\$ 3,047,295	\$ 3,025,998	\$24,115,898	\$24,506,989	\$ 27,163,193	\$ 27,532,987
Operating grants and contributions	983,615	86,703	22,801	28,106	1,006,416	114,809
Capital grants and contributions	561,519	724,294	457,089	671,868	1,018,609	1,396,162
General revenues:						
Property taxes	4,435,496	4,311,149	-	-	4,435,496	4,311,149
Sales and use taxes	5,089,676	3,976,271	-	-	5,089,676	3,976,271
Other taxes	4,234,379	4,388,113	46,735	44,539	4,281,114	4,432,652
Licenses and permits	484,552	464,228	2,881	2,881	487,433	467,109
Unrestricted grants and contributions	1,871,990	2,007,924	-	-	1,871,990	2,007,924
Investment earnings	145,204	328,966	204,714	457,648	349,919	786,614
Miscellaneous	296,114	282,147	281,139	203,678	577,252	485,825
Gain (loss) on sale of assets	78,060	656,787	(251,936)	(134,232)	(173,877)	522,555
Total revenues	<u>\$21,227,901</u>	<u>\$20,252,579</u>	<u>\$24,879,321</u>	<u>\$25,781,476</u>	<u>\$ 46,107,222</u>	<u>\$ 46,034,055</u>
EXPENSES						
Governmental activities:						
General government	\$ 2,788,545	\$ 2,660,049	\$ -	\$ -	\$ 2,788,545	\$ 2,660,049
Judicial	375,749	343,760	-	-	375,749	343,760
Public safety	8,903,231	7,746,638	-	-	8,903,231	7,746,638
Transportation	2,656,134	2,352,149	-	-	2,656,134	2,352,149
Natural and economic environment	1,808,763	1,499,618	-	-	1,808,763	1,499,618
Social services	402,756	397,749	-	-	402,756	397,749
Culture and recreation	2,140,809	2,062,645	-	-	2,140,809	2,062,645
Interest expense and related charges	7,285	8,437	-	-	7,285	8,437
Business-Type activities:						
Water Fund	-	-	5,373,249	6,215,607	5,373,249	6,215,607
Sewer Fund	-	-	10,278,164	11,234,747	10,278,164	11,234,747
Solid Waste Fund	-	-	4,098,419	3,919,523	4,098,419	3,919,523
Storm Drain Fund	-	-	1,854,899	1,769,757	1,854,899	1,769,757
Marina Fund	-	-	1,539,496	1,511,541	1,539,496	1,511,541
Total expenses	<u>\$19,083,272</u>	<u>\$17,071,045</u>	<u>\$23,144,227</u>	<u>\$24,651,175</u>	<u>\$ 42,227,499</u>	<u>\$ 41,722,220</u>
Change in net position before special items and transfers	2,144,629	3,181,534	1,735,095	1,130,301	3,879,723	4,311,835
Transfers	(25,000)	87,713	25,000	(87,713)	-	-
Change in net position	<u>\$ 2,119,629</u>	<u>\$ 3,269,247</u>	<u>\$ 1,760,095</u>	<u>\$ 1,042,588</u>	<u>\$ 3,879,723</u>	<u>\$ 4,311,835</u>
Net position - beginning	71,289,030	68,019,783	87,275,290	86,232,702	158,564,319	154,252,485
Net position - ending	<u>\$73,408,659</u>	<u>\$71,289,030</u>	<u>\$89,035,384</u>	<u>\$87,275,290</u>	<u>\$162,444,043</u>	<u>\$158,564,319</u>

Note: Totals may not foot due to rounding.

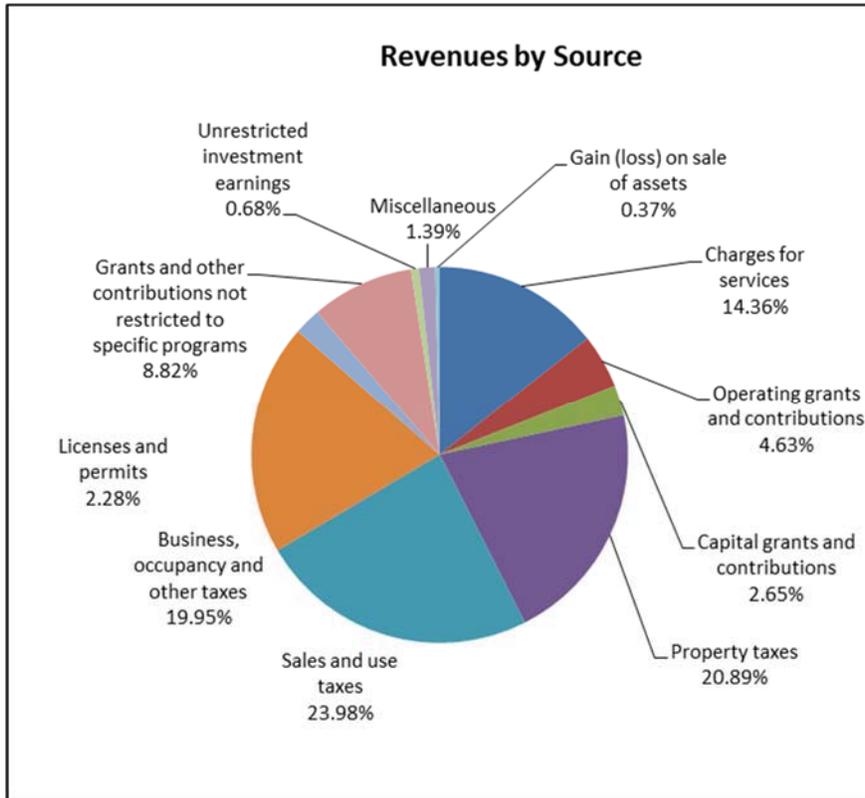
In governmental activities, total revenues, exclusive of any losses on sales of assets, for 2020 show a \$0.98 million increase when compared to revenues of the previous year primarily due grants and sales tax. In business-type activities, revenues, exclusive of any losses on sale of assets, have decreased \$0.78 million

primarily due to reductions in charges for services and interest earnings due to the poor economy related to the COVID-19 emergency and due to reductions in capital grants.

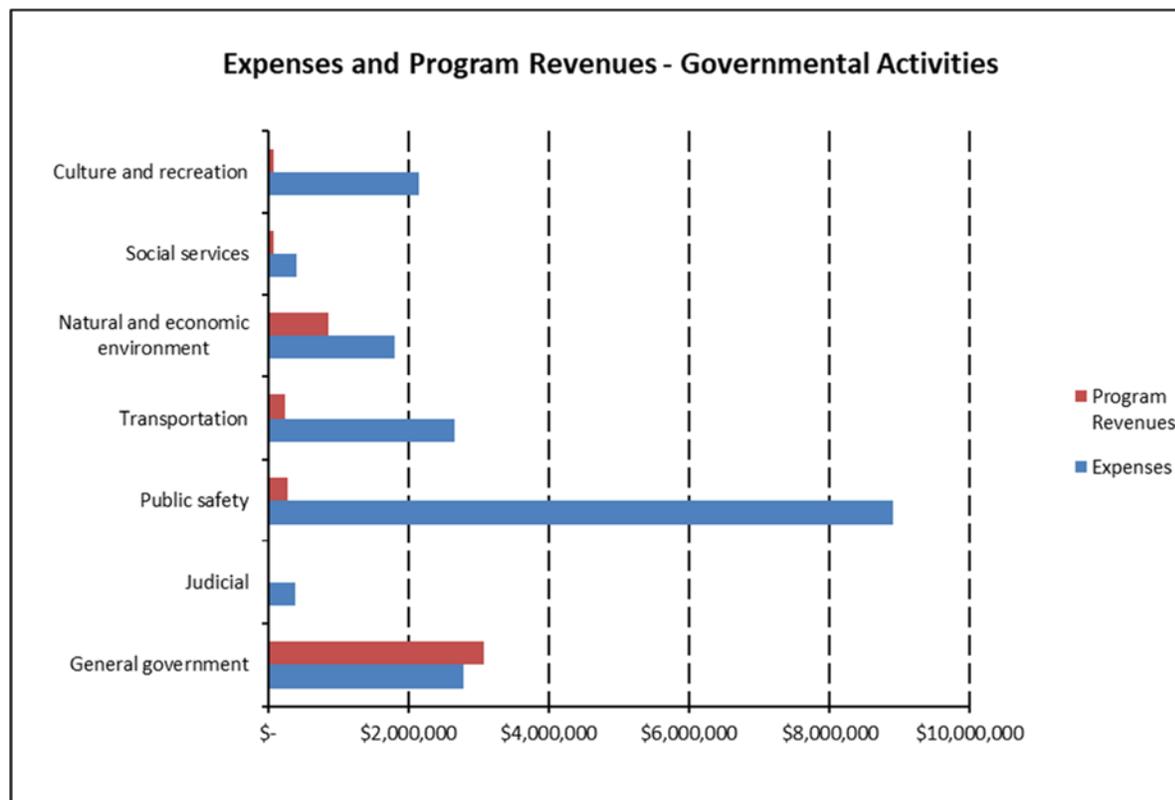
GOVERNMENTAL ACTIVITIES ANALYSIS

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

In regard to governmental revenue types excluding transfers, taxes account for the largest revenue category, generating \$13.76 million, or 64.82%, of the \$21.23 million total governmental revenues. The majority of tax revenue is received in the General Fund accounting for \$11.70 million, or 72.27%, of General Fund revenues. Because of this high percentage, this General Fund category receives the majority of attention during the City's budgeting process. Included in this category are sales, property, utility, criminal justice, and gambling taxes.



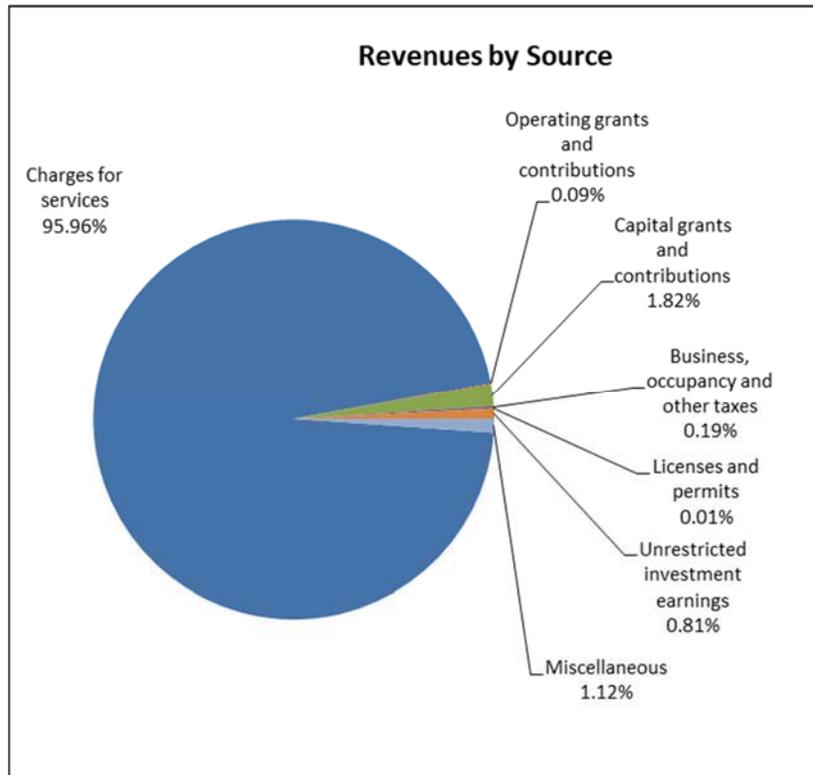
Expenses: The following comparative graph illustrates governmental program revenues to program expenses:



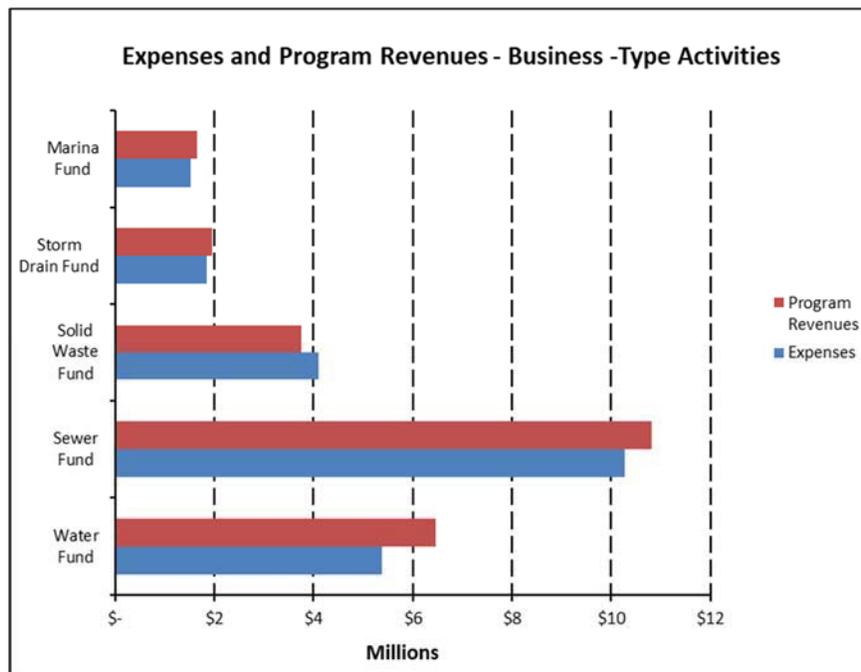
General government services encompass a variety of services including executive, development services, financial, legal, judicial, personnel, building maintenance, and audit/risk management. Security of persons and property services are provided by the City's Police Department who works to provide professional 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 Senior Center and 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 has 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 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. The City adopted Ordinance 1899 on October 20, 2020, which, effective on December 20, 2020, increased the monthly consumption rates on 6- and 8-inch water lines from \$696 to \$1,530.04.

- **Sewer 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 adopted Ordinance 1899 on October 20, 2020, which, effective on December 20, 2020, increased the monthly service charges across the board by 10.5% and will increase them by 7.5% on December 20, 2021.

- **Solid Waste 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. The City adopted Ordinance 1899 on October 20, 2020, which, effective on December 20, 2020, increased the monthly service charges across the board by 9.5% and will increase them by 9.5% on December 20, 2021.

- **Storm Drain 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. The City adopted Ordinance 1899 on October 20, 2020, which will increase the monthly service charges across the board by 2.5% on December 20, 2021.

- **Marina 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 2020, business activity program revenues exceeded expenditures because rates were set to accommodate future capital improvements for a fully functioning system. Recently all utilities implemented and/or updated their functional plans to evaluate future improvements and operating costs. A rate study was completed in 2020 and rate increases were implemented in 2020 and are set to increase again in 2021 via Ordinance 1899, which was adopted by the Oak Harbor City Council on October 20, 2020, to ensure rates are set at the appropriate level to accommodate capital infrastructure and operations costs.

Internal Service Funds:

The City of Oak Harbor utilizes five 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.

• **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.

• **Facility Replacement Fund:** The Facility Replacement Fund is an internal service fund to accumulate funds for future repairs on facilities.

• **Technology Replacement Fund:** The Technology Replacement Fund is an internal service fund to accumulate funds for future purchases of hardware and software.

• **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 the General Fund and the Streets Fund met the requirement to qualify as major funds. 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 \$20.23 million with total expenditures equaling \$21.00 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 \$0.65 million, or 5.48%.

- **Streets Fund:** The Streets Fund accounts for revenues related to street improvements. Funding primarily is derived via intergovernmental state revenues consisting of the motor vehicle fuel tax and CAPRON funds. Per RCW 46.68.080, San Juan and Island counties, and cities located within those counties, receive a share of the state gas tax and vehicle license fees (called CAPRON funds) to compensate for their lack of state highways and state highway investments. The fund balance for the Streets Fund decreased by \$1.30 million, or 38.15%.

- **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. Net Position in all funds increased with the exception of the Solid Waste fund. The Solid Waste Fund's Net Position decreased by \$333,381 or 12.07% primarily due to unanticipated costs related to increase costs for solid waste and recycling disposal.

BUDGETARY HIGHLIGHTS

The following is a brief review of the budgeting changes from the adopted to the amended final budget for the major governmental funds. Please note that budget to actual comparisons are provided in the financial statements.

The significant budgetary changes in the General Funds include:

Budgeted General Fund revenues and expenses were increased due to outcomes of salary negotiations with our collective bargaining units and to account for CARES Act and other grant funding.

The significant budgetary changes in the Streets Fund include:

Budgeted Streets Fund revenues and expenditures were amended due to outcomes of salary negotiations with our collective bargaining units and the transfer of capital projects to other funds.

CASH MANAGEMENT

Aggressive efforts to maximize interest earnings of temporary cash reserves have been as successful as the economy allows, particularly in light of the drastically reduced interest rates on investments due to the COVID-19 emergency. 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. In governmental activities, the City has participated in the LOCAL program and has a Certificate of Participation. At the end of 2020 the outstanding balance was \$263,085.

In business-type activities, the City has an outstanding LTGO bond issue in the amount of \$1,480,000 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 \$929,517 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 \$95,750,299 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 (\$2,235,341,366), or \$33,530,120, less outstanding general obligation debt originated without a public vote of \$1,480,000, for a total of \$32,050,120.
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 2020, the City's limit is \$22,353,414, 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 2020, the City's limit is \$55,883,534.

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. We separated the funds into different categories in 2020, we now have a Vehicle Replacement Fund, Technology Replacement Fund, and Facility Replacement Fund. The City's budget continues to primarily focus on operation and maintenance costs. Annually the City updates the

Capital 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 and utilizing Impact fees or REET funding. The City continues to allocate funds for pavement and this year the Transportation Benefit District was established and the permission to charge 2/10th more sales tax was submitted to the voters and approved for 2020 collection of that tax revenue.

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

COVID-19 Emergency

With the worst effects of the Great Recession behind us, we headed into 2020 confident that with our strong financial policies and enlightened city leadership, the new year would continue the City's trend toward strengthening financials. By the second week of January, the World Health Organization (WHO) announced that there was an unknown Coronavirus-related pneumonia in Wuhan, China. By the end of the month, the US Centers for Disease Control (CDC) announced airport screenings for the virus at three of the busiest American airports and confirmed the first US Coronavirus case right here in Washington State. By the end of the month, the WHO issued a Global Health Emergency declaration. In February, the United States declared a public health emergency and the CDC stated that COVID-19 was heading toward pandemic status. By March, a national emergency was declared and multiple states issued stay at home orders. This had the effect of shuttering schools, places of business, and government offices, including here in Oak Harbor.

This world-wide disaster had monumental deleterious effects on the nation's economy. The effective Federal Funds rate dropped from 1.58% on January 1 to 0.05% by April. From the beginning of the year to April, one-month and ten-year treasury yields dropped from 1.53% to near zero and 1.88% to 0.58%, respectively. Unemployment rates increased dramatically and city revenues such as sales tax and utility service charges were impacted. While the impact on utility service charges and sales tax revenues was short lived as some industries learned to thrive in this environment, investment earnings have still not recovered as the effective Federal Funds rate and short-term treasury yields have remained depressed.

One particularly bright spot in the local economy has been real estate. Real estate values have increased dramatically over the past year. This has not only spurred bidding competitions for the existing housing stock but has spurred demand from developers looking to construct residential units on the City's undeveloped parcels and to redevelop underdeveloped ones.

At the time of this writing, the CDC announced that folks who are fully vaccinated no longer need to wear their masks (in most circumstances) indoors or outdoors. We are hopeful that due to this and future announcements along with the passage of the American Rescue Plan, schools, businesses, and offices will continue to open up. We are hopeful that the economic environment will continue to improve into 2021.

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.

After the end of 2020, the State legislature passed measures related to police reform and making drug possession a misdemeanor rather than a felony as it had been under an old law that was struck down by the Washington Supreme Court. We are studying the financial impact that these new laws may have on 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 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 facing what other cities across the nation are, homelessness and adequate housing for low income families. This is up front and prioritized at the state legislature and we may be seeing changes that could change the focus of our services. We will learn as the rest of Washington State does what types of impacts that may have on our 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, 2020**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 25,095,275	\$ 32,360,919	\$ 57,456,194
Investments	1,296,952	1,719,644	3,016,595
Accounts receivable (net)	509,597	2,670,639	3,180,237
Deposits receivable	187,108	3,477,355	3,664,463
Restricted cash	1,386,969	151,772	1,538,740
Due from other governments	1,625,756	12,274	1,638,030
Inventories	20,430	22,270	42,701
Prepays	207,163	1,001	208,164
Total current assets	30,329,250	40,415,874	70,745,124
Noncurrent assets:			
Restricted cash	3,988,042	513,928	4,501,969
Pension asset	2,294,434	-	2,294,434
Land	11,986,351	5,394,966	17,381,317
Construction in progress	430,882	400,642	831,524
Intangible assets	50,000	-	50,000
Buildings and systems	4,912,900	134,523,492	139,436,392
Improvements and infrastructure	21,282,914	36,939,637	58,222,551
Machinery and equipment	5,541,787	671,344	6,213,131
Total noncurrent assets	50,487,309	178,444,009	228,931,319
Total assets	80,816,559	218,859,884	299,676,443
Deferred Outflows of Resources			
Asset retirement obligation	-	120,308	120,308
OPEB	40,324	-	40,324
Pension	1,021,780	224,594	1,246,374
Total deferred outflows of resources	1,062,104	344,902	1,407,006
Total assets and deferred outflows of resources	81,878,663	219,204,786	301,083,449
Liabilities			
Current liabilities:			
Accounts payable	381,236	596,523	977,760
Accrued interest payable	980	515,050	516,030
Other current liabilities	302,452	3,629,138	3,931,590
Unearned revenue	57,864	-	57,864
Compensated absences	132,355	28,544	160,899
Asset retirement obligation	-	10,140	10,140
Due to other governments	48,129	4,760,061	4,808,189
Bonds payable, net	-	125,000	125,000
OPEB liability	67,869	-	67,869
Total current liabilities	990,885	9,664,456	10,655,341
Noncurrent liabilities:			
Compensated absences	1,555,280	335,216	1,890,496
Asset retirement obligation	-	136,280	136,280
Due to other governments	231,745	91,919,755	92,151,500
Bonds payable, net	-	27,116,074	27,116,074
OPEB liability	2,820,181	-	2,820,181
Pension obligation	1,872,315	751,923	2,624,238
Total noncurrent liabilities	6,479,521	120,259,249	126,738,770
Total liabilities	7,470,406	129,923,705	137,394,111
Deferred Inflows of Resources			
Pension	999,598	245,697	1,245,295
Total deferred inflows of resources	999,598	245,697	1,245,295
Total liabilities and deferred inflows of resources	8,470,004	130,169,402	138,639,406
Net Position			
Net investment in capital assets	43,924,960	50,460,552	94,385,512
Restricted for:			
Public safety	19,014	-	19,014
Transportation	4,598,905	-	4,598,905
Culture and recreation	1,143,703	-	1,143,703
Capital projects	3,124,302	256,928	3,381,229
Pensions	2,362,732	-	2,362,732
Other programs	40,000	-	40,000
Debt service	-	257,000	257,000
Unrestricted	18,195,043	38,060,904	56,255,947
Total net position	73,408,659	89,035,384	162,444,043

The notes to financial statements are an integral part of this statement.
Note: Totals for tables may not foot due to rounding. This applies to all tables in this document.

**City of Oak Harbor
Statement of Activities
For the Year Ended December 31, 2020**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,788,545	\$ 2,385,499	\$ 343,259	\$ 343,308	\$ 283,521	\$ -	\$ 283,521
Judicial	375,749	1,557	-	-	(374,192)	-	(374,192)
Public safety	8,903,231	167,731	107,648	-	(8,627,852)	-	(8,627,852)
Transportation	2,656,134	25,368	-	218,211	(2,412,555)	-	(2,412,555)
Natural and economic environment	1,808,763	390,326	465,340	-	(953,098)	-	(953,098)
Social services	402,756	-	67,208	-	(335,547)	-	(335,547)
Culture and recreation	2,140,809	76,814	160	-	(2,063,835)	-	(2,063,835)
Interest expense and related charges	7,285	-	-	-	(7,285)	-	(7,285)
Total governmental activities	19,083,272	3,047,295	983,615	561,519	(14,490,843)	-	(14,490,843)
Business-type activities:							
Water Fund	5,373,249	6,265,884	-	186,286	-	1,078,920	1,078,920
Sewer Fund	10,278,164	10,562,925	-	245,000	-	529,761	529,761
Solid Waste Fund	4,098,419	3,746,294	-	-	-	(352,124)	(352,124)
Storm Drain Fund	1,854,899	1,919,445	-	25,803	-	90,350	90,350
Marina Fund	1,539,496	1,621,350	22,801	-	-	104,655	104,655
Total business-type activities	23,144,227	24,115,898	22,801	457,089	-	1,451,562	1,451,562
Total primary government	\$ 42,227,499	\$ 27,163,193	\$ 1,006,416	\$ 1,018,609	\$ (14,490,843)	\$ 1,451,562	\$ (13,039,281)
General revenues:							
Property taxes					\$ 4,435,496	\$ -	\$ 4,435,496
Sales and use taxes					5,089,676	-	5,089,676
Business, occupancy and other taxes					4,234,379	46,735	4,281,114
Licenses and permits					484,552	2,881	487,433
Grants and other contributions not restricted to specific programs					1,871,990	-	1,871,990
Unrestricted investment earnings					145,204	204,714	349,919
Miscellaneous					296,114	281,139	577,252
Gain (loss) on sale of assets					78,060	(251,936)	(173,877)
Transfers					(25,000)	25,000	-
Total general revenues, special items, and transfers					16,610,472	308,533	16,919,004
Change in net position					2,119,629	1,760,095	3,879,723
Net position - beginning					71,289,030	87,275,290	158,564,319
Net position - ending					\$ 73,408,659	\$ 89,035,384	\$ 162,444,043

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, 2020**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash & cash equivalents	\$ 9,203,911	\$ 1,489,174	\$ 2,665,989	\$ 13,359,075
Investments	640,496	-	-	640,496
Accounts receivables (net)	509,498	-	99	509,597
Deposits receivables	-	-	187,108	187,108
Restricted cash	293,050	513,254	4,568,706	5,375,010
Due from other governments	911,538	167,708	353,971	1,433,218
Prepays	135,509	374	-	135,883
Total assets	<u>\$ 11,694,003</u>	<u>\$ 2,170,510</u>	<u>\$ 7,775,874</u>	<u>\$ 21,640,387</u>
Liabilities				
Accounts payable	\$ 294,448	\$ 31,104	\$ 4,320	\$ 329,873
Deposits	76,538	31,210	-	107,748
Retainage	-	7,596	187,108	194,704
Unearned revenue	57,424	-	440	57,864
Total liabilities	<u>428,411</u>	<u>69,910</u>	<u>191,868</u>	<u>690,189</u>
Deferred Inflows of Resources				
Taxes	56,735	-	-	56,735
Total deferred inflows of resources	<u>56,735</u>	<u>-</u>	<u>-</u>	<u>56,735</u>
Total liabilities and deferred inflows of resources	<u>485,146</u>	<u>69,910</u>	<u>191,868</u>	<u>746,924</u>
Fund Balances (Deficits)				
Unspendable	135,509	374	-	135,883
Restricted	269,612	1,920,226	6,736,085	8,925,924
Committed	1,814,566	-	847,921	2,662,486
Assigned	1,387,200	180,000	-	1,567,200
Unassigned	7,601,970	-	-	7,601,970
Total fund balances (deficits)	<u>11,208,857</u>	<u>2,100,600</u>	<u>7,584,005</u>	<u>20,893,463</u>
Total liabilities and fund balances (deficits)	<u>\$ 11,694,003</u>	<u>\$ 2,170,510</u>	<u>\$ 7,775,874</u>	<u>\$ 21,640,387</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, 2020**

Fund balances of governmental funds		\$20,893,463
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	12,419,437	
Historical cost of assets being depreciated	59,296,221	
Accumulated depreciation	<u>(34,356,546)</u>	
		37,359,112
Investments are adjusted to market value		-
Long-term assets are not available to pay for current period expenditures and therefore deferred:		
Other long-term assets	192,539	
Taxes receivable	<u>56,735</u>	
		249,274
Pension asset, pension liabilities, and pension deferred items are not reported in the funds.		964,736
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accounts payable	-	
Compensated absences	(1,437,124)	
Bonds and loans payable	(280,853)	
Other post-employment benefits, including deferred items	<u>(2,847,726)</u>	
		(4,565,703)
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.		<u>18,507,778</u>
Net position of governmental activities		<u><u>\$73,408,659</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, 2020

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 11,698,624	\$ -	\$ 2,055,242	\$ 13,753,866
Licenses and permits	475,365	9,187	-	484,552
Intergovernmental	1,078,321	1,238,324	283,899	2,600,544
Charges for services	2,698,776	25,368	323,150	3,047,295
Fines and forfeits	76,228	-	-	76,228
Interest revenue	71,986	21,441	34,188	127,615
Miscellaneous	87,382	4,185	50,259	141,825
Total revenues	<u>16,186,682</u>	<u>1,298,506</u>	<u>2,746,738</u>	<u>20,231,926</u>
Expenditures				
Current:				
General government	3,347,934	-	-	3,347,934
Judicial	375,749	-	-	375,749
Public safety	8,541,420	-	-	8,541,420
Transportation	-	1,786,144	154,950	1,941,094
Natural and economic environment	1,718,369	-	228,055	1,946,424
Social services	7,190	-	383,297	390,487
Culture and recreation	1,661,437	-	85,561	1,746,999
Capital outlay:				
Capital outlay	1,296,775	972,171	380,063	2,649,009
Debt Service:				
Principal	-	-	45,837	45,837
Interest	-	-	14,053	14,053
Total expenditures	<u>16,948,874</u>	<u>2,758,315</u>	<u>1,291,817</u>	<u>20,999,006</u>
Excess (deficiency) of revenues over expenditures	<u>(762,192)</u>	<u>(1,459,810)</u>	<u>1,454,921</u>	<u>(767,080)</u>
Other Financing Sources (Uses)				
Transfers in	342,500	175,000	696,625	1,214,125
Transfers out	(230,204)	(31,979)	(976,941)	(1,239,125)
Gain (loss) on sale of fixed assets	-	-	13,137	13,137
Insurance recoveries	-	20,919	-	20,919
Total other financing sources (uses)	<u>112,296</u>	<u>163,940</u>	<u>(267,179)</u>	<u>9,056</u>
Net change in fund balances	(649,896)	(1,295,870)	1,187,742	(758,024)
Fund balances - beginning	11,858,753	3,396,470	6,396,263	21,651,487
Fund balances - ending	<u>\$ 11,208,857</u>	<u>\$ 2,100,600</u>	<u>\$ 7,584,005</u>	<u>\$ 20,893,463</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, 2020

Net change in fund balances - total governmental funds (\$758,024)

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	2,649,009	
Depreciation	(1,434,778)	
	<u>1,214,231</u>	1,214,231

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

Contributions of capital assets	56,698	
Disposal of capital assets	0	
	<u>56,698</u>	56,698

Proceeds from and repayment of governmental long-term debt is not reported in the funds. 52,605

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

Taxes	5,686	
Grants	141,095	
	<u>146,780</u>	146,780

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

Change in accounts payable	0	
Compensated absences	(11,344)	
Other post-employment benefits	(414,457)	
Pension expense	706,833	
	<u>281,032</u>	281,032

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 1,126,307

Change in net position of governmental activities \$2,119,629

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, 2020

	Budgeted Amounts		Actual
	Original	Final	
Revenues			
Taxes	\$ 11,089,348	\$ 11,089,348	\$ 11,698,624
Licenses and permits	557,700	567,800	475,365
Intergovernmental	414,647	1,252,513	1,078,321
Charges for services	2,253,874	2,264,874	2,698,776
Fines and forfeits	122,565	125,265	76,228
Interest revenue	34,500	34,500	71,986
Miscellaneous	99,350	99,350	87,382
Total revenues	<u>14,571,984</u>	<u>15,433,650</u>	<u>16,186,682</u>
Expenditures			
Current:			
General government	3,470,220	3,513,520	3,347,934
Judicial	539,800	539,800	375,749
Public safety	7,326,399	8,485,930	8,541,420
Natural and economic environment	1,284,034	2,150,230	1,718,369
Social services	8,500	8,500	7,190
Culture and recreation	1,722,691	1,753,490	1,661,437
Capital outlay:			
Capital outlay	362,500	1,495,146	1,296,775
Debt service:			
Interest	-	-	-
Total expenditures	<u>14,714,144</u>	<u>17,946,616</u>	<u>16,948,874</u>
Excess (deficiency) of revenues over expenditures	<u>(142,160)</u>	<u>(2,512,966)</u>	<u>(762,192)</u>
Other Financing Sources (Uses)			
Transfers in	347,500	342,500	342,500
Transfers out	(230,205)	(230,205)	(230,204)
Total other financing sources (uses)	<u>117,295</u>	<u>112,295</u>	<u>112,296</u>
Net change in fund balances	(24,865)	(2,400,671)	(649,896)
Fund balances - beginning	11,858,753	11,858,753	11,858,753
Fund balances - ending	<u>\$ 11,833,888</u>	<u>\$ 9,458,082</u>	<u>\$ 11,208,857</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
Streets Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual
For the Year Ended December 31, 2020**

	Budgeted Amounts		Actual
	Original	Final	
Revenues			
Licenses and permits	\$ 5,814	\$ 5,814	\$ 9,187
Intergovernmental	1,390,340	1,201,740	1,238,324
Charges for services	21,630	21,630	25,368
Interest revenue	3,030	3,030	21,441
Miscellaneous	500	500	4,185
Total revenues	<u>1,421,314</u>	<u>1,232,714</u>	<u>1,298,506</u>
Expenditures			
Current:			
Transportation	1,236,905	1,294,883	1,786,144
Capital outlay:			
Capital outlay	784,518	976,961	972,171
Debt service:			
Interest	-	-	-
Total expenditures	<u>2,021,423</u>	<u>2,271,844</u>	<u>2,758,315</u>
Excess (deficiency) of revenues over expenditures	<u>(600,109)</u>	<u>(1,039,130)</u>	<u>(1,459,810)</u>
Other Financing Sources (Uses)			
Transfers in	557,918	175,000	175,000
Transfers out	(356,979)	(31,979)	(31,979)
Insurance recoveries	-	-	20,919
Total other financing sources (uses)	<u>200,939</u>	<u>143,021</u>	<u>163,940</u>
Net change in fund balances	(399,170)	(896,109)	(1,295,870)
Fund balances - beginning	3,396,470	3,396,470	3,396,470
Fund balances - ending	<u>\$ 2,997,300</u>	<u>\$ 2,500,361</u>	<u>\$ 2,100,600</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, 2020**

	Business-type Activities					Governmental Activities	
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total	
						Enterprise Funds	Internal Service Funds
Assets							
Current assets:							
Cash & cash equivalents	\$ 12,531,709	\$ 12,643,499	\$ 2,237,751	\$ 2,928,206	\$ 2,019,753	\$ 32,360,919	\$ 11,736,200
Investments	855,136	864,507	-	-	-	1,719,644	656,456
Accounts receivable (net)	676,164	1,220,941	433,298	208,129	132,107	2,670,639	-
Deposits receivable	-	3,477,355	-	-	-	3,477,355	-
Restricted cash	65,911	-	2,000	-	83,860	151,772	-
Due from other governments	-	-	-	-	12,274	12,274	-
Inventories	-	-	-	-	22,270	22,270	20,430
Prepays	328	118	-	34	521	1,001	71,280
Total current assets	14,129,248	18,206,421	2,673,049	3,136,369	2,270,786	40,415,874	12,484,366
Noncurrent assets:							
Restricted cash	81,928	175,000	-	-	257,000	513,928	-
Land	104,351	1,626,584	201,810	286,800	3,175,421	5,394,966	-
Construction in progress	35,895	257,445	-	44,101	63,202	400,642	47,795
Buildings and systems	1,296	133,886,294	-	-	635,902	134,523,492	2,703,655
Improvements and infrastructure	20,274,995	13,513,386	-	2,830,057	321,199	36,939,637	256,727
Machinery and equipment	349,673	213,911	19,774	19,774	68,213	671,344	3,837,544
Total noncurrent assets	20,848,137	149,672,620	221,584	3,180,733	4,520,936	178,444,009	6,845,722
Total assets	34,977,386	167,879,041	2,894,633	6,317,102	6,791,723	218,859,884	19,330,088
Deferred Outflows of Resources							
Asset retirement obligation	18,090	-	-	-	102,218	120,308	-
Pension	36,637	62,834	51,924	39,073	34,126	224,594	127,203
Total deferred outflows of resources	54,727	62,834	51,924	39,073	136,344	344,902	127,203
Total assets and deferred outflows of resources	35,032,112	167,941,875	2,946,557	6,356,174	6,928,067	219,204,786	19,457,291
Liabilities							
Current liabilities:							
Accounts payable	222,973	106,889	168,903	26,359	71,399	596,523	51,364
Interest payable	832	508,075	-	940	5,203	515,050	-
Deposits	65,911	-	2,000	11	83,860	151,783	-
Retainage	-	3,477,355	-	-	-	3,477,355	-
Compensated absences	1,641	3,972	9,751	10,949	2,231	28,544	19,801
Asset retirement obligation	10,140	-	-	-	-	10,140	-
Due to other governments	51,344	4,650,132	-	58,585	-	4,760,061	-
Bonds payable, net	-	-	-	-	125,000	125,000	-
Total current liabilities	352,841	8,746,423	180,654	96,844	287,693	9,664,456	71,165
Noncurrent liabilities:							
Compensated absences	23,845	52,740	109,403	116,820	32,408	335,216	230,710
Asset retirement obligation	20,280	-	-	-	116,000	136,280	-
Due to other governments	233,740	91,100,168	-	585,848	-	91,919,755	-
Bonds payable, net	-	25,768,786	-	-	1,347,289	27,116,074	-
Pension Obligation	122,649	215,127	171,551	129,706	112,890	751,923	506,669
Total noncurrent liabilities	400,514	117,136,820	280,954	832,373	1,608,587	120,259,249	737,379
Total liabilities	753,356	125,883,243	461,608	929,217	1,896,280	129,923,705	808,544
Deferred Inflows of Resources							
Pension	40,285	70,354	56,417	41,969	36,673	245,697	140,969
Total deferred inflows of resources	40,285	70,354	56,417	41,969	36,673	245,697	140,969
Total liabilities and deferred inflows of resources	793,641	125,953,597	518,026	971,186	1,932,953	130,169,402	949,513
Net Position							
Net investment in capital assets	20,481,125	24,452,181	221,584	2,534,535	2,771,128	50,460,552	6,845,722
Restricted for:							
Capital projects	81,928	175,000	-	-	-	256,928	-
Debt service	-	-	-	-	257,000	257,000	-
Unrestricted	13,675,419	17,361,097	2,206,948	2,850,454	1,966,986	38,060,904	11,662,056
Total net position	\$ 34,238,472	\$ 41,988,278	\$ 2,428,532	\$ 5,384,989	\$ 4,995,114	\$ 89,035,384	\$ 18,507,778

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, 2020

	Business-type Activities					Total		Governmental Activities
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Enterprise Funds	Internal Service Funds	
Operating Revenues								
Charges for services	\$ 6,100,775	\$ 10,478,089	\$ 3,745,743	\$ 1,882,232	\$ 1,621,350	\$ 23,828,189	\$ 2,779,317	
System development revenue	158,674	84,836	-	-	-	243,510	-	
Other operating revenues	6,435	-	551	37,213	-	44,199	2,970,088	
Total operating revenues	<u>6,265,884</u>	<u>10,562,925</u>	<u>3,746,294</u>	<u>1,919,445</u>	<u>1,621,350</u>	<u>24,115,898</u>	<u>5,749,405</u>	
Operating Expenses								
Cost of sales and service	2,436,547	1,148,933	760,170	581,628	779,043	5,706,321	2,571,592	
Contractual services	108,694	256,515	19,572	55,652	18,224	458,656	609,282	
Utilities	15,748	501,170	1,596,663	-	80,668	2,194,248	65,558	
Taxes	670,086	842,147	405,034	140,684	6,095	2,064,046	-	
Repairs and maintenance	111,102	88,050	374,891	52,834	42,673	669,550	289,111	
Other operating expenses	922,685	1,203,835	887,838	783,791	374,087	4,172,237	1,033,648	
Insurance claims and expenses	66,329	278,841	42,422	25,035	35,219	447,846	66,746	
Depreciation	1,035,558	3,482,627	11,829	213,602	123,064	4,866,680	745,602	
Total operating expenses	<u>5,366,748</u>	<u>7,802,117</u>	<u>4,098,419</u>	<u>1,853,227</u>	<u>1,459,074</u>	<u>20,579,585</u>	<u>5,381,539</u>	
Operating income (loss)	<u>899,135</u>	<u>2,760,808</u>	<u>(352,124)</u>	<u>66,218</u>	<u>162,276</u>	<u>3,536,314</u>	<u>367,866</u>	
Nonoperating Revenues (Expenses)								
Interest revenue	66,743	77,761	26,872	19,508	13,830	204,714	17,589	
External subsidies	-	245,000	-	17,620	22,801	285,421	581,032	
Other nonoperating revenues	241,786	6,353	3,542	5,859	72,909	330,450	12,751	
Gain (loss) on sale of fixed assets	(251,936)	-	-	-	-	(251,936)	64,923	
Interest expense and related charges	(1,532)	(2,476,047)	-	(1,672)	(66,640)	(2,545,891)	-	
Other nonoperating expenses	(4,969)	-	-	-	(13,782)	(18,751)	-	
Insurance recoveries	-	-	-	304	-	304	82,147	
Total nonoperating revenues (expenses) and income (loss) before contributions and transfers	<u>50,092</u>	<u>(2,146,932)</u>	<u>30,414</u>	<u>41,620</u>	<u>29,118</u>	<u>(1,995,689)</u>	<u>758,441</u>	
Capital contributions	949,227	613,876	(321,710)	107,838	191,394	1,540,625	1,126,307	
Transfers in	186,286	-	-	8,184	-	194,470	-	
Transfers out	(36,671)	(25,000)	(11,671)	(36,671)	-	(110,013)	-	
Change in net position	1,098,842	723,889	(333,381)	79,351	191,394	1,760,095	1,126,307	
Total net position - beginning	33,139,630	41,264,390	2,761,913	5,305,638	4,803,720	87,275,290	17,381,471	
Total net position - ending	<u>\$ 34,238,472</u>	<u>\$ 41,988,278</u>	<u>\$ 2,428,532</u>	<u>\$ 5,384,989</u>	<u>\$ 4,995,114</u>	<u>\$ 89,035,384</u>	<u>\$ 18,507,778</u>	

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

City of Oak Harbor
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2020

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total	Internal Service
						Enterprise Funds	Funds
Cash Flows From Operating Activities							
Cash receipts from customers	\$ 6,243,423	\$ 11,012,524	\$ 3,732,752	\$ 1,878,127	\$ 1,600,989	\$ 24,467,815	\$ 5,317
Receipts from interfund services provided	6,435	-	551	37,213	-	44,199	5,749,405
Payments to suppliers	(3,017,619)	(3,078,755)	(2,357,143)	(490,889)	(723,329)	(9,667,737)	(2,273,809)
Payments to employees	(400,621)	(696,683)	(497,347)	(373,000)	(338,169)	(2,305,820)	(1,315,476)
Payments for interfund services used	(927,268)	(1,210,640)	(1,238,670)	(781,109)	(312,833)	(4,470,520)	(1,131,543)
Net cash provided (used) by operating activities	1,904,349	6,026,447	(359,856)	270,342	226,657	8,067,938	1,033,894
Cash Flows From Noncapital Financing Activities							
Transfers from other funds	-	135,013	-	-	-	135,013	-
Transfers to other funds	(36,671)	(25,000)	(11,671)	(36,671)	-	(110,013)	-
Receipts from miscellaneous revenues	236,818	6,353	3,542	6,164	95,710	348,587	675,929
Net cash provided (used) by noncapital financing activities	200,147	116,366	(8,129)	(30,507)	95,710	373,587	675,929
Cash Flows From Capital and Related Financing Activities							
Principal paid on capital debt	(51,344)	(4,576,263)	-	(58,585)	(119,375)	(4,805,567)	-
Interest paid on capital debt	(1,682)	(2,496,894)	-	(1,758)	(66,965)	(2,567,299)	-
Purchases of capital assets	234,468	(696,479)	-	(53,244)	(63,202)	(578,457)	(1,911,544)
Proceeds from sales of capital assets	(251,936)	-	-	-	-	(251,936)	64,923
Capital grants and contributions	-	245,000	-	17,620	-	262,620	-
Net cash provided (used) by capital and related financing activities	(70,495)	(7,524,636)	-	(95,967)	(249,542)	(7,940,640)	(1,846,621)
Cash Flows From Investing Activities							
Proceeds from sale and maturity of investments	3,685,205	3,725,590	-	-	-	7,410,794	2,828,993
Purchase of investments	(1,136,486)	(128,485)	-	-	-	(1,264,971)	(407,683)
Interest and dividends received	66,743	77,761	26,872	19,508	13,830	204,714	17,589
Net cash provided (used) by investing activities	2,615,462	3,674,866	26,872	19,508	13,830	6,350,538	2,438,899
Net increase (decrease) in cash and cash equivalents	4,649,462	2,293,043	(341,113)	163,376	86,655	6,851,423	2,302,101
Balances - beginning of year	8,030,086	10,525,457	2,580,864	2,764,830	2,273,958	26,175,195	9,434,099
Balances - end of the year	12,679,548	12,818,499	2,239,751	2,928,206	2,360,614	33,026,619	11,736,200
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating Income	899,135	2,760,808	(352,124)	66,218	162,276	3,536,314	367,866
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	1,035,558	3,482,627	11,829	213,602	123,064	4,866,680	745,602
Changes in assets and liabilities:							
Change in accounts receivable	(5,826)	(33,452)	1,009	(4,116)	(27,200)	(69,585)	5,317
Change in deposits receivable	2,156	483,052	-	-	-	485,207	-
Change in due from other governments	-	-	-	-	4,792	4,792	-
Change in inventories	-	-	-	-	17,239	17,239	6,325
Change in prepaids	645	899	95	32	(194)	1,477	90,229
Change in deferred outflows	(788)	(7,191)	(7,780)	(8,756)	(4,984)	(29,500)	(7,652)
Change in accounts payable	3,131	(142,897)	22,687	9,080	(42,580)	(150,579)	13,543
Change in deposits	(12,356)	-	(14,000)	11	2,047	(24,298)	-
Change in retainage	(2,156)	(483,052)	-	-	-	(485,207)	-
Change in compensated absences	6,100	12,272	16,913	11,090	12,599	58,975	(73,221)
Change in asset retirement obligation	420	-	-	-	-	420	-
Change in pension obligation	8,015	8,530	6,007	12,319	7,061	41,933	8,893
Change in deferred inflows	(29,686)	(55,149)	(44,492)	(29,139)	(27,463)	(185,930)	(123,009)
Net cash provided (used) by operating activities	1,904,349	6,026,447	(359,856)	270,342	226,657	8,067,938	1,033,894
Cash Reconciliation							
Actual Balance - end of year	12,679,548	12,818,499	2,239,751	2,928,206	2,360,614	33,026,619	11,736,200
Balance - end of year out of balance	-	-	-	-	-	-	-
Noncash Activities							
Capital contributions	\$ 186,286	\$ -	\$ -	\$ 8,184	\$ -	\$ 194,470	\$ -

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 funds:

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

The *Streets Fund* is a special revenue fund for the purpose of maintaining City streets, rights-of-way and related facilities in a safe manner that complies with local, state and federal standards and regulations.

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

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

The *Marina 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. Expenses are for operations, maintenance and repairs of marina infrastructure, and capital upgrades.

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 five *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 vehicles and equipment. Cash reserves or "sinking funds" are established to fully fund vehicle and major equipment needs at the time of purchase.

The *Facility Replacement Fund* accumulates funds for future repairs on facilities.

The *Technology Replacement Fund* accumulates funds for future purchases of hardware and software.

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.

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 2020, the Wastewater Treatment Plant Project fund reported \$1,569,123 of expenditures above budgeted appropriations. This was caused by depreciation expense, which is an unbudgeted item.

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 only the Wastewater Treatment Plant Project fund has exceeded its legally established appropriations.

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, 2020, the City had \$57,456,194 in short-term residual investments of 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, 2020 to establish the fair market value of investments and adjusts the carrying value accordingly. Investments are allocated to individual high-balance funds based on the fund's prorated percentage of cash balance at year end. As of December 31, 2020, the City had \$3,016,595 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 customer deposits, construction and debt service, including current and delinquent special assessments receivable, if any, in enterprise funds. The related liabilities are held in deposits and the related net position is shown as restricted for capital outlay and debt service. Specific debt service reserve requirements are described in Note 9 - Long-term Debt.

The restricted assets of the enterprise funds are composed of the following:

2020	
Capital projects	\$ 256,928
Customer deposits	151,772
Debt service	257,000
Total restricted cash	\$ 665,700

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.

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 are no longer included as part of the capitalized value of the assets constructed due to GASB 89.

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

Asset	Years
Buildings and improvements	10-50
Improvements other than buildings	10-50
Machinery and equipment	5-25
Vehicles	5-10
Utility systems	25-70
Infrastructure	20-70

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, once incurred, are paid from current financial resources. Charges incurred, but unpaid, 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 Compensated Absences Fund. 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 is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred (see Note 16 – Defined Benefit Other Postemployment Benefits (OPEB) Plan).

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 7 – 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:

Non-spendable 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 non-spendable and are neither restricted nor committed. However, if there is a negative balance after classifying amounts as non-spendable, 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. Non-spendable – if the associated assets 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 non-spendable fund balance is as follows:

	General Fund	Streets Fund	Other Governmental Funds	Total
Fund Balances:				
Unspendable for:				
Prepays	\$ 135,509	\$ 374	\$ -	\$ 135,883
Restricted for:				
Drug Seizure Program	10,414	-	-	10,414
Public Safety	8,600	-	-	8,600
Street Surface Improvements	-	1,920,226	-	1,920,226
Arterial Traffic Improvements	-	-	1,244,394	1,244,394
Transportation Capital Improvements	-	-	957,372	957,372
Transportation Benefit District Improvements	-	-	476,913	476,913
Paths And Trails Improvements	-	-	18,230	18,230
Tourism Promotion	-	-	732,493	732,493
Park Improvement Programs	250,598	-	142,382	392,980
Capital Facilities Plan	-	-	3,124,302	3,124,302
Senior Services Program	-	-	40,000	40,000
Committed to:				
Park Improvement Programs	247,141	-	-	247,141
Community Art	-	-	188,153	188,153
Senior Services Program	-	-	41,649	41,649
Municipal Pier Capital Project	-	-	75,000	75,000
Windjammer Park	-	-	543,118	543,118
Stabilization Arrangement	1,567,425	-	-	1,567,425
Assigned to:				
Street Surface Improvements	-	180,000	-	180,000
Office Operations	2,350	-	-	2,350
Whidbey Marathon Operating Funds	-	-	-	-
Council Specified Expenditures	1,384,850	-	-	1,384,850
Unassigned:	7,601,970	-	-	7,601,970
Total Fund Balances	\$ 11,208,857	\$ 2,100,600	\$ 7,584,005	\$ 20,893,463

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.

On December 4, 2018, the City passed Ordinance #1843, amending section 3.09 General Fund Revenue Stabilization Fund of the Oak Harbor Municipal Code.

The Ordinance addresses the missing language for repayment after the use of funds and how one-time revenues should be treated. It also reduces the transfer to the General Fund Revenue Stabilization Fund to an amount equal to 10% of the General Fund Revenues. This combined with the 16.67% of the

General Fund balance that is retained allows for reserves at a level Government Financial Officers Association (GFOA) and Municipal Research and Services Center (MRSC) considers best practice.

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.

The city will maintain general fund revenue stabilization fund reserves at a level equal to at least 10% of the total fiscal year ending actual general fund revenues, excluding any significant one-time revenue. Needed transfers will occur as part of the year end procedures and prior to final closure of the fiscal year. The purpose of the fund is to sustain city services in the event of a catastrophic event such as a natural or manmade disaster (e.g., earthquake, windstorm, flood, terrorist attack), or a major downturn in the economy.

These reserved funds may be appropriated only by a vote of not less than four members of the city council or the unanimous vote of a legal quorum. If the funds are approved for use, the city will begin to replenish these reserves at the end of the biennium if a surplus exists, but no later than the biennium following their use.

As of December 31, 2020, the cash balance for the Stabilization arrangement is \$1,567,425.

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, 2020:

Cash Reconciliation	Amount
Account Statements	
Bank balances	\$ 46,521,159
Washington State Local Gov. Inv. Pool	19,382,122
Total	\$ 65,903,281
Financial Statements	
Cash and cash equivalents	\$ 63,496,904
Outstanding bank items	2,409,378
Cash on hand	(3,000)
Total	\$ 65,903,281

Note: Totals may not foot due to rounding.

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 was created by Chapter 294, Laws of 1986 and began operations in July 1986. The LGIP is a short-term investment pool of the state of Washington, available to eligible governmental entities as defined by Revised Code of Washington (RCW) 43.250.020. Participation is voluntary.

The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP. The State Treasurer and designated investment officers adhere to all restrictions on the investment of funds established by law and policy.

The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP does not have any legally binding guarantees of share value.

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, except for funds transmitted by automated clearing house (ACH). 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, other than those by ACH. 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. ACH transactions require notification no later than 2 p.m. on the prior business day. All participants are required to file 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, 2020 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 Home Loan Bank	Level 2	\$ 1,006,902	\$ 1,006,902	\$ -	\$ -
Federal Home Loan Mortgage Corp	Level 2	1,002,869	1,002,869	-	-
Federal National Mortgage	Level 2	1,006,824	1,006,824	-	-
Total investments by fair value		\$ 3,016,595	\$ 3,016,595	\$ -	\$ -

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, 2020 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 LGIP is a short-term investment pool. To provide for safety and liquidity of funds, the LGIP consists of high quality, highly liquid obligations with limited maximum and average maturities. The LGIP's policy establishes weighted average maturity (WAM) and weighted average life (WAL) limits not to exceed 60 and 120 days, respectively. As of June 30, the LGIP had a WAM of 50 days and a WAL of 107 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 2020 was \$1.99196 per \$1,000 on an assessed valuation of \$2,235,341,366 for a regular levy of \$4,452,729.

Note 5 – Capital Assets and Depreciation

Governmental-type capital assets activity for the year ended December 31, 2020 was as follows:

Governmental Activities:	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
Capital assets not being depreciated:				
Land	10,839,204	1,147,146	-	11,986,351
Construction in progress	557,628	409,592	(536,338)	430,882
Intangible assets	50,000	-	-	50,000
Total capital assets not depreciated:	11,446,833	1,556,738	(536,338)	12,467,232
Assets depreciated:				
Buildings	10,947,339	343,308	-	11,290,647
Capital lease	-	-	-	-
Improvements & infrastructure	48,280,218	1,546,563	-	49,826,781
Machinery & equipment	14,568,678	1,706,979	(468,850)	15,806,807
Total capital assets depreciated:	73,796,235	3,596,851	(468,850)	76,924,235
Less accumulated depreciation:				
Buildings	(6,156,164)	(221,583)	-	(6,377,747)
Capital lease	-	-	-	-
Improvements & infrastructure	(27,398,739)	(1,145,128)	-	(28,543,867)
Machinery & equipment	(9,920,202)	(813,669)	468,850	(10,265,021)
Total accumulated depreciation:	(43,475,105)	(2,180,380)	468,850	(45,186,634)
Total capital assets depreciated (net):	30,321,130	1,416,471	-	31,737,601
Governmental activities total capital assets (net):	41,767,963	2,973,209	(536,338)	44,204,833

Note: Totals may not foot due to rounding.

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

Governmental Activities:	
General governmental	\$ 26,546
Public safety	103,664
Transportation	737,620
Natural & economic environment	7,896
Social Services	25,823
Cultural and recreational	533,229
Internal service	745,602
Total depreciation expense - governmental activities	\$ 2,180,380

Note: Totals may not foot due to rounding.

Business-type capital assets activity for the year ended December 31, 2020 was as follows:

Business-type Activities:	Beginning Balance			Ending Balance
	1/1/2020	Increases	Decreases	12/31/2020
Capital assets not being depreciated:				
Land	5,354,367	40,599	-	5,394,966
Construction in progress	348,497	325,350	(273,205)	400,642
Total capital assets not depreciated:	5,702,864	365,949	(273,205)	5,795,608
Capital assets being depreciated:				
Buildings	142,877,899	431,393	-	143,309,292
Improvements	74,630,854	215,739	-	74,846,592
Machinery & equipment	4,550,777	33,051	-	4,583,828
Total capital assets depreciated:	222,059,529	680,182	-	222,739,712
Less accumulated depreciation:				
Buildings	(5,898,291)	(2,887,509)	-	(8,785,799)
Improvements	(36,059,606)	(1,847,349)	-	(37,906,955)
Machinery & equipment	(3,780,661)	(131,823)	-	(3,912,484)
Total accumulated depreciation:	(45,738,558)	(4,866,680)	-	(50,605,238)
Total capital assets depreciated (net):	176,320,971	(4,186,498)	-	172,134,474
Business-type activities total capital assets (net):	182,023,835	(3,820,548)	(273,205)	177,930,082

Note: Totals may not foot due to rounding.

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

Business-type Activities:		
Water	\$	1,035,558
Sewer		3,482,627
Solid waste		11,829
Storm drain		213,602
Marina		123,064
Total depreciation expense - business-type activities	\$	4,866,680

Note: Totals may not foot due to rounding.

In 2020, the City recognized a permanent impairment loss on disposal due to construction stoppage for the Cross City Transmission project that was cancelled in the amount of \$251,936 reported in the Water Fund. The project costs mainly comprised of salvaging older project design costs from the original North Transmission Lines & Booster Station water fund project that was also cancelled several years ago. Additional details on the impairment loss can be found on Note 18 - Other Disclosures Special Item.

Furthermore, insurance proceeds net of the related loss in the amount of \$64,923 were received for an impaired police vehicle that was physically damaged and totaled in an accident. These proceeds are recognized in the Internal Service funds.

The City has the following active construction projects as of December 31, 2020:

Project	Spent to Date	Remaining Commitment
Wastewater Treatment Plant	\$ 140,112,753	\$ 833,369
Crescent Harbor/Regatta Water Main	15,117	24,843
Waterfront Trail	266,329	3,917
Bridge Tranmission Painting/Upgrades	-	364,937
Pasek Sewer Overflow Structure	-	73,197
Goldie Street Stormwater Retrofit	25,166	51,806
City Well #9 Replacement	9,365	45,863
Fakkema/Boyer Access Road	30,472	47,851
Interpretive Center	4,598	17,202
2020 F Dock Storm Repair	51,709	2,859
Marina Improvements/Upgrades	11,325	25,816
Harbor Heights Improvements	57,812	161,253
Windjammer Park Phase 1	12,224,565	123,911
Total	\$ 152,809,210	\$ 1,776,825

Note: Totals may not foot due to rounding.

Note 6 – Asset Retirement Obligations

For fiscal year 2020, the City assessed the effects of general inflation in relation to GASB Statement No. 83 Certain Asset Retirement Obligations (ARO). This statement requires that recognition of the obligation occur when the liability is both incurred and reasonably estimable. The City has identified three active water wells and five sunken timber barges that meet this requirement.

It is required that wells that are no longer used, needed, or have reached the end of their serviceable life are required, by Washington state law, to be decommissioned by a licensed drilling contractor. The

Department of Ecology would be the state agency with jurisdiction over decommissioning water wells. Other regulations for water well decommissioning include WAC 173-160-381, WAC 173-162, and RCW Chapter 18.104 for the Washington Well Construction Act.

The timber barges were identified and were added for 2020. Their removal is to be completed no later than the expiration of a lease with the Department of Natural Resources in June 2028. An internal engineering estimated cost is \$116,000 which is included in the table below.

This liability is reported based on the best estimate using all available evidence of the current value of outlays expected to be incurred. The most likely amount to decommission these wells was estimated to cost \$10,000 each for a total value of \$30,000. As of December 31, 2020, inflation was assessed at 1.4% based on the CPI data for 2020 and the current value of the ARO has been adjusted to reflect this increase.

The following table represents the City's ARO for 2020:

ARO	Remaining Useful Life	Beginning Balance 1/1/2020	Additions	Reductions	Ending Balance 12/31/2020
Well 8	6 years	\$ 10,000	\$ 140	\$ -	\$ 10,140
Well 9	1 year	10,000	140	-	10,140
Well 11	7 years	10,000	140	-	10,140
Timber Barges	7.42 years		116,000	-	116,000
Total		\$ 30,000	\$ 116,420	\$ -	\$ 146,420

Note 7 – 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 2020:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$2,624,238)
Pension assets	2,294,434
Deferred outflows of resources	1,246,374
Deferred inflows of resources	(1,245,295)
Pension expense/expenditures	273,607

State Sponsored Pension Plans

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

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

Department of Retirement Systems

Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

Public Employees’ Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 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 2020 were as follows:

Actual Contribution Rates:	Employer	Employee
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

The City’s actual contributions to the plan were \$371,897 for the year ended December 31, 2020.

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 2020 were as follows:

Actual Contribution Rates:	Employer	Employee
January – August 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.86%	7.90%
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.97%	7.90%

The City’s actual contributions to the plan were \$558,669 for the year ended December 31, 2020.

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 and Cannabis 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.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2020 were as follows:

Actual Contribution Rates:	Employer	Employee
January – August 2020		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.14%	7.20%
September – December 2020		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.25%	7.20%

The City’s actual contributions to the plan were \$25,880 for the year ended December 31, 2020.

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 – 1.0% 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 2020. 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.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% in 2020.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

Actual Contribution Rates:	Employer	Employee
January – December 2020		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%

The City’s actual contributions to the plan were \$199,970 for the year ended December 31, 2020.

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, 2020, the state contributed \$76,297,643 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,279,980.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2013-2018 *Experience Study and the 2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payment.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.40%

Mortality rates were developed using the Society of Actuaries’ Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA’s 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value

benefits for members who elect to retire early and for survivors of members that die prior to retirement.

- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.40%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.4% 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 7.4% 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2020, 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%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
	100.00%	

Sensitivity of NPL

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4%, 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 (6.4%) or 1-percentage point higher (8.4%) than the current rate.

Plan	1% Decrease (6.4%)	Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$2,310,379	\$1,844,531	\$1,438,263
PERS 2/3	4,851,550	779,708	(2,573,456)
PSERS 2	78,389	(7,201)	(74,940)
LEOFF 1	(165,905)	(203,827)	(236,636)
LEOFF 2	(39,629)	(2,001,770)	(3,608,372)

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, 2020, the City reported a total pension liability of \$2,624,238 for its proportionate share of the net pension liabilities and a total pension asset of \$2,212,797 for its proportionate share of the net pension assets related to State sponsored pension plans as follows.

(Liability) Asset	
PERS 1	(\$1,844,531)
PERS 2/3	(779,707)
PSERS 2	7,201
LEOFF 1	203,827
LEOFF 2	2,001,770

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	\$203,827	\$2,001,770
State's proportionate share of the net pension asset associated with the employer	1,378,679	\$1,279,980
Total	\$1,582,506	\$3,281,750

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

Plan	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.052590%	0.052245%	-0.000345%
PERS 2/3	0.062710%	0.060965%	-0.001745%
PSERS 2	0.066631%	0.052330%	-0.014301%
LEOFF 1	0.010562%	0.010793%	0.000231%
LEOFF 2	0.100590%	0.098133%	-0.002457%

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 Non-employer 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 2020. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2020, 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 2020, the state of Washington contributed 39% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61% of employer contributions.

The collective net pension (liability) asset was measured as of June 30, 2020, and the actuarial valuation date on which the total pension (liability) asset is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the City recognized pension expense as follows:

Pension Expense	
PERS 1	74,784
PERS 2/3	62,616
PSERS 2	16,403
LEOFF 1	(14,568)
LEOFF 2	81,568
Total	220,802

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(10,270)
Changes of assumptions	-	-
Contributions subsequent to the measurement date	178,003	-
Total	\$ 178,003	\$ (10,270)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 279,124	\$ (97,716)
Net difference between projected and actual investment earnings on pension plan investments	-	(39,598)
Changes of assumptions	11,105	(532,608)
Changes in proportion and differences between contributions and proportionate share of contributions	-	(132,617)
Contributions subsequent to the measurement date	277,357	-
Total	\$ 567,586	\$ (802,539)

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,893	\$ (539)
Net difference between projected and actual investment earnings on pension plan investments	385	-
Changes of assumptions	37	(13,612)
Changes in proportion and differences between contributions and proportionate share of contributions	750	(6,612)
Contributions subsequent to the measurement date	12,931	-
Total	\$ 23,995	\$ (20,762)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(2,132)
Changes of assumptions	-	-
Contributions subsequent to the measurement date	-	-
Total	\$ -	\$ (2,132)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 276,978	\$ (35,503)
Net difference between projected and actual investment earnings on pension plan investments	-	(22,311)
Changes of assumptions	2,900	(309,963)
Changes in proportion and differences between contributions and proportionate share of contributions	96,604	(41,815)
Contributions subsequent to the measurement date	100,308	-
Total	\$ 476,790	\$ (409,593)

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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2
2021	(\$46,604)	(\$353,701)	(\$2,631)	(\$7,611)	(\$153,423)
2022	(1,466)	(107,505)	(1,182)	(397)	(9,853)
2023	14,220	(16,311)	(32)	2,164	39,580
2024	23,580	48,582	1,060	3,712	76,929
2025	-	(40,186)	(1,161)	-	(3,501)
Thereafter	-	(43,188)	(5,752)	-	17,157

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, a non-employer contributing entity, contributes 40% of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only by the Legislature.

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

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

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

Contributions

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

The contribution rates for 2020 were as follows:

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

The City’s actual contributions to the plan were \$450 for the year ended December 31, 2020. The City has opted to pay members’ fees on their behalf. Contributions on behalf of members were \$450 for the year ended December 31, 2020.

In accordance with Chapter 41.24 RCW, the state contributes 40% of the fire insurance premium tax to the plan. For fiscal year 2020, the fire insurance premium tax contribution was \$8.2 million. The City received \$0 of this amount.

Actuarial Assumptions

The total pension asset for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2019, and rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 2.5%
- 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 Demographic Experience Study*, the *2008-2013 Pension Experience Study*, and the *2018 Relief Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2019 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 7.4% 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, 2020, 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%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
	100.00%	

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’s 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.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
VFFRPF	\$11,984	\$81,637	\$138,222

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, 2020, the City reported an asset of \$81,637 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, 2020, the City’s proportion was 0.231660%.

The VFFRPF collective net pension asset was measured as of June 30, 2020, and the actuarial valuation date on which the total pension asset is based was as of June 30, 2019, with update procedures used to roll forward the total pension asset to the measurement date.

For the year ended December 31, 2020, the City recognized pension expense of \$52,804. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

Note 8 – 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 162 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 \$400 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, reinsurance and other 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 2020.

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.

The City of Oak Harbor has outstanding loans from direct borrowings related to governmental activities totaling \$263,085. The City of Oak Harbor has outstanding general obligation bonds, revenue bonds and loans from direct borrowings related to business-type activities totaling \$1,480,000, \$25,720,000, and \$96,679,816, respectively.

Bonds

General Obligation Bond (Related to Business Type Activities)

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. There is no collateral associated with this bond and no significant finance-related default, termination or acceleration clauses.

General obligation debt currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
2011 OAKLTGO11 Marina improvements	2030	4.00% - 4.40%	\$2,570,000	\$1,480,000

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

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ -	\$ -	\$125,000	\$62,440
2022	-	-	125,000	57,440
2023	-	-	135,000	52,440
2024	-	-	140,000	47,040
2025	-	-	145,000	41,440
2026-2030	-	-	810,000	109,780
Total	\$ -	\$ -	\$1,480,000	\$370,580

At December 31, 2020, the City has restricted assets in proprietary funds containing \$257,000 in reserves as required by bond indentures.

Revenue Bonds (Related to Business Type Activities)

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. There is no collateral associated with this bond. If the principal of any Bond is not paid on time, the City will be obligated to pay interest on that Bond at the same rate provided on the Bond even after maturity until both principal and interest is paid in full. In the event of default, the Bond owners may appoint a trustee and take steps to remedy the situation.

Revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
2016 OAKWA16 Clean Water Facility	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
2021	\$0	\$855,191
2022	0	855,191
2023	0	855,191
2024	0	855,191
2025	0	855,191
2026-2030	0	4,275,956
2031-2035	0	4,275,956
2036-2040	8,610,000	3,863,613
2041-2045	14,025,000	1,896,360
2046	3,085,000	100,263
Total	\$25,720,000	\$18,688,104

Government Loans

Public Works Trust Fund Loans (Related to Business Type Activities)

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 \$285,085 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 \$644,432 will be repaid from the Storm Drain Fund revenues. There is no collateral associated with these loans. There is a clause that requires that the City pay 1% interest per month on payments past due by 31 days.

PWTF loans currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
PW-05-691-042 Water transmission line	2025	0.50%	\$436,642	\$114,906
PW-06-962-031 Water transmission line	2026	0.50%	\$538,900	\$170,179
PW-12-951-048 42" Storm drain outfall	2031	0.25%	\$985,584	\$644,432

The annual debt service requirements to maturity on PWTF debt from direct borrowings and direct placement are as follows:

Year Ending December 31,	Principal	Interest
2021	\$109,929	\$3,037
2022	109,929	2,633
2023	109,929	2,230
2024	109,929	1,827
2025	109,929	1,424
2026-2030	321,287	3,071
2031	58,585	146
Total	\$929,517	\$14,368

Department of Ecology State Revolving Fund (SRF) Loans (Related to Business Type Activities)

Department of Ecology loans are payable from revenues generated by the City's Sewer Fund. The loan for the construction of the sewer outfall has an outstanding balance of \$2,267,032, while the remaining loans for the construction of the Clean Water Facility had an outstanding balance of \$93,483,267. There is no collateral associated with these loans, but there is a clause that requires that the City to pay of 1% interest per month on payments past due by 31 days. There are also several other clauses in which the Department of Ecology (DOE) can 1) terminate the loan agreement for insufficient funds, 2) if the payment is 60 days overdue, DOE can demand repayment for the outstanding balance and any personal property acquired with these funds may have to be surrendered, 3) the State can also withhold funds from shared revenues in the amount of the past due amounts, and 4) the City could be liable for any costs to enforce the provisions of the loan.

Total SRF loans currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
WQC-2015 OakHar-00110 Sewer outfall	2036	2.70%	\$2,637,085	\$2,267,032
WQC-2015 OakHar-00021 Clean Water Facility	2037	2.70%	\$8,699,275	\$7,916,637
WQC-2016 OakHar-00240 Clean Water Facility	2038	1.90%	\$16,621,795	\$15,451,749
WQC-2017 OakHar-00081 Clean Water Facility	2038	1.60%	\$46,085,262	\$42,798,361
WQC-2018 OakHar-00112 Clean Water Facility	2038	1.20%	\$29,455,620	\$27,316,521

The annual debt service requirements to maturity on SRF debt from direct borrowings and direct placement are as follows:

Year Ending December 31,	Principal	Interest
2021	\$4,650,132	\$1,567,835
2022	4,727,218	1,490,748
2023	4,805,673	1,412,294
2024	4,885,520	1,332,446
2025	4,966,788	1,251,178
2026-2030	26,104,605	4,985,226
2031-2035	28,365,666	2,724,165
2036-2038	17,244,696	473,435
Total	\$95,750,299	\$15,237,326

Washington State LOCAL Loan (Related to Governmental Activities)

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 collateral for this loan takes the form of a lien on the property purchased with these funds. There is also a clause in which the State can withhold funds from shared revenues in the amount of the past due amounts.

The LOCAL loan currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installments
OAK0361-2-1 LED lighting upgrades	2025	2.36%	\$465,837	\$263,085

The annual debt service requirements to maturity on the LOCAL loan debt from direct borrowings and direct placement are as follows:

Year Ending December 31,	Principal	Interest
2021	\$48,129	\$6,181
2022	50,535	4,916
2023	53,062	3,589
2024	54,322	2,926
2025	57,038	1,499
Total	\$263,085	\$19,111

Lines of Credit

The City has no unused lines of credit.

Note 10 – Leases and Contract Obligations

Operating Leases

The City of Oak Harbor leases buildings and equipment under non-cancelable operating leases. Total cost for such leases was \$50,035 for the year ending December 31, 2020. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2021	\$ 19,143
2022	15,292
2023	8,813
2024	7,163
2025	1,545
Total	\$ 51,956

Capital Leases

The City has no capital lease agreements and did not enter into any capital lease agreements during 2020.

Note 11 – Changes in Long-term Liabilities

During the year ended December 31, 2020, 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		Ending Balance		Due Within
Governmental Activities:	1/1/2020	Additions	Reductions	12/31/2020	One Year
Debt from direct borrowings and direct payments:					
LOCAL COP	\$ 308,922	\$ -	\$ (45,837)	\$ 263,085	\$ 48,129
Premium	23,365	-	(6,577)	16,788	-
OPEB liability	2,466,542	518,022	(96,514)	2,888,050	67,869
Pension obligation	1,921,409	-	(49,094)	1,872,315	-
Compensated absences	1,749,512	-	(61,876)	1,687,635	132,355
Government activity long-term liabilities:	\$ 6,469,750	\$ 518,022	\$ (259,898)	\$ 6,727,873	\$ 248,353
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 1,600,000	\$ -	\$ (120,000)	\$ 1,480,000	\$ 125,000
Revenue bonds	25,720,000	-	-	25,720,000	-
Premium	54,444	-	(2,160)	52,284	-
Discount	(12,118)	-	909	(11,209)	-
Total bonds payable:	27,362,326	-	(121,251)	27,241,074	125,000
Debt from direct borrowings and direct payments:					
PWTF loans	1,039,446	-	(109,929)	929,517	109,929
SRF loans	100,324,686	-	(4,574,387)	95,750,299	4,650,132
Asset retirement obligation	30,000	116,420	-	146,420	10,140
Pension obligation	709,991	41,933	-	751,923	-
Compensated absences	304,785	58,975	-	363,760	28,544
Business-type activity long-term liabilities	\$ 129,771,233	\$ 217,328	\$ (4,805,567)	\$ 125,182,994	\$ 4,923,745

Note: Totals may not foot due to rounding.

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 \$11,802,584 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, 2020.

Interfund Transfers

The primary purpose of interfund transfers is to support the operations of other funds and contributions for capital projects. Interfund transfers at December 31, 2020 were as follows:

Fund	Transfer In	Transfer Out
General	\$ 342,500	\$ (230,204)
Streets	175,000	(31,979)
Nonmajor governmental	696,625	(976,941)
Water	-	(36,671)
Sewer	135,013	(25,000)
Solid Waste	-	(11,671)
Storm drain	-	(36,671)
Internal Service	-	-
Total	\$ 1,349,138	\$ (1,349,138)

Note 15 – Receivable and Payables Balances

Detail of “Accounts receivable (net),” “Deposits receivable” and “Due from other governments” are as follows:

Receivables:	Governmental Activities	Business-type Activities	Total
Property taxes	\$ 83,855	\$ -	\$ 83,855
Municipal court	712,594	-	712,594
Customer accounts	200	2,666,017	2,666,217
Other accounts	341,313	4,622	345,936
Deposits	187,108	3,477,355	3,664,463
Other taxes	1,424,618	11,051	1,435,669
Grants	201,138	1,223	202,361
Gross receivables	2,950,827	6,160,269	9,111,096
Less: allowance for uncollectible	(628,366)	-	(628,366)
Net total receivables	\$ 2,322,462	\$ 6,160,269	\$ 8,482,730

Note: Totals may not foot due to rounding.

Detail of "Other current liabilities" are as follows:

Payables	Governmental Activities	Business-type Activities	Total
Retainage	\$ 194,704	\$ 3,477,355	\$ 3,672,059
Custodial accounts	93,698	11	93,710
Security deposits	14,050	151,772	165,822
Total payables	\$ 302,452	\$ 3,629,138	\$ 3,931,590

Note: Totals may not foot due to rounding.

Note 16 – Defined Benefit Other Postemployment Benefit (OPEB) Plan

Other Post-employment Benefits (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2020:

Aggregate OPEB Amounts	
OPEB liabilities	(\$2,888,050)
OPEB assets	-
Deferred outflows of resources	40,324
Deferred inflows of resources	-
OPEB expense/expenditures	584,450

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 single employer defined benefit healthcare plan administered by the City. The plan, LEOFF Disability, covers the members necessary hospital, medical, vision, dental, 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.

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The City's actual expenses were \$66,428 for the year ended December 31, 2020.

At December 31, 2020, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	0
Active employees	0
Total	5

Actuarial Assumptions

Utilizing the Office of the State Actuary’s (OSA) Alternative Measurement Method (AMM) Online Tool (Tool), the City used the alternative measurement method permitted under GASB 75. The OSA actuarial reports relied upon the *2018 LEOFF 1 Medical Benefits Actuarial Valuation Report*.

The Tool uses the following assumptions:

Methodology	
Actuarial valuation date	6/30/2020
Actuarial measurement date	6/30/2020
Actuarial cost method	Entry age
Amortization method	Recognized immediately
Asset valuation method	N/A
Assumptions	
Discount Rate ⁽¹⁾	
Beginning of measurement year	3.50%
End of measurement year	2.21%
Healthcare trend rates ⁽²⁾	
Medical costs	Initial rate is about 6%, trends down to about 5% in the 2020's.
Long-term care	4.50%
Medicare Part B premiums	Approximately 5%, varies by year.
Mortality rates (assume 100% male population)	
Base mortality table	RP-2000 mortality table
Age setback	+1 year healthy / -2 years disabled, blended 50%/50% healthy/disabled
Mortality improvements	100% scale BB
Projection period	Generational
Medicare participation rate	100%

⁽¹⁾ Source: *Bond Buyer General Obligation 20-Bond Municipal Index*

⁽²⁾ For additional detail on the healthcare trend rates, please see OSA's *2018 LEOFF 1 Medical Benefits Actuarial Valuation Report*

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 6.0%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.0%) or 1-percentage point higher (7.0%) that the current rate.

	1% Decrease (5.0%)	Current Healthcare Cost Trend Rate (6.0%)	1% Increase (7.0%)
Total OPEB liability	(\$2,566,468)	(\$2,888,050)	(\$3,265,584)

The following presents the total OPEB liability of the City calculated using the discount rate of 3.5%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5%) or 1-percentage point higher (4.5%) than the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB liability	(\$3,294,083)	(\$2,888,050)	(\$2,551,141)

Changes in the Total OPEB Liability

LEOFF 1	
Total OPEB liability at 1/1/2020	\$ 2,466,542
Service costs	-
Interest costs	84,655
Change in assumptions	433,367
Change in benefit terms	-
Estimated benefit payments	(96,514)
Other changes	-
Total OPEB liability at 12/31/2020	\$ 2,888,050

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Payments subsequent to the measurement date	40,324	-
Total	\$ 40,324	\$ -

Deferred outflows of resources of \$40,324 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2021.

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 utilize 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 2020.

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 2020.

Note 18 – Other Disclosures

Accounting and Reporting Changes

Effective in the annual financial statements for 2020, the City implemented the following statements of the Governmental Accounting Standards Board (GASB):

GASB 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements - The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. These additional disclosures regarding any amount of unused lines of credit, assets pledged as collateral for debt, and any terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance related consequences, and (3) subjective acceleration clauses can be found on Note 9 – Long-term Debt.

Special Item

In 2020, city staff determined that the Cross City Transmission Project in the water fund would be cancelled and dropped from the Capital Improvement Plan. The scope of this project included the installation of approximately 8,200 linear feet of 18-inch ductile iron water pipe, and 100 feet of 8-inch-diameter ductile iron pipe between the North Reservoir and West Crescent Harbor Road over the course of several years. The final project costs were estimated to be approximately \$4,070,075. As a result of management's decision to cancel the project in 2020, this caused the permanent impairment due to construction stoppage in the amount of \$251,936 to dispose of the asset that was included as Construction in Progress in the water fund. Although the project itself never began, the costs associated with the project were comprised of salvaged project designs from the original North Transmission Lines & Booster Station project that was cancelled several years ago. The original project designs for the North Booster Station amounted to \$475,352 and the design costs were salvaged and split between several water projects, in which the Cross City Transmission accounted for salvaging 53% of the design costs. The asset has been fully disposed and there remains no carrying value after the impairment.

Subsequent Events

While the COVID-19 emergency continues the CDC announced that folks who are fully vaccinated no longer need to wear their masks (in most circumstances) indoors or outdoors. We are hopeful that due to this and future announcements along with the passage of the American Rescue Plan Act (ARPA), schools, businesses, and offices will continue to open up. We are hopeful that the economic environment will continue to improve.

The City is projected to receive \$6.6 million through 2024 from the ARPA. Authorized uses include: public health and economic impacts, premium pay, revenue loss, and investments in infrastructure. The City has allocated some of this funding already and will be planning for additional uses of these funds over the next few years.

The City and Hoffman Construction Company of Washington came to an agreement for final costs that were under the total amount budgeted for their General Contractor / Construction Manager services for the City's Clean Water Facility. The project is currently in the final close out stage.

Required Supplementary Information

Pensions

Schedule of Proportionate Share

Year	Employer's proportion of the net pension asset/liability	Employer's proportionate share of the net pension asset (liability)	State's proportionate share of the net pension asset (liability) associated with the employer	Total	Covered payroll	Employer's proportionate share of the net pension asset (liability) as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension asset (liability)
Schedule of Proportionate Share of Net Pension Liability - PERS 1 - As of June 30,							
2020	0.052245%	(\$1,844,531)	NA	(\$1,844,531)	\$7,616,594	24.22%	68.64%
2019	0.052590%	(\$2,022,272)	NA	(\$2,022,272)	\$7,226,923	27.98%	67.12%
2018	0.053939%	(\$2,408,934)	NA	(\$2,408,934)	\$7,042,527	34.21%	63.22%
2017	0.054960%	(\$2,607,895)	NA	(\$2,607,895)	\$6,817,078	38.26%	61.24%
2016	0.057656%	(\$3,096,399)	NA	(\$3,096,399)	\$6,767,199	45.76%	57.03%
2015	0.054069%	(\$2,828,312)	NA	(\$2,828,312)	\$5,824,538	48.56%	59.10%
Schedule of Proportionate Share of Net Pension Liability - PERS 2/3 - As of June 30,							
2020	0.060965%	(\$779,708)	NA	(\$779,708)	\$7,108,600	10.97%	97.22%
2019	0.062710%	(\$609,127)	NA	(\$609,127)	\$6,815,914	8.94%	97.77%
2018	0.063571%	(\$1,085,418)	NA	(\$1,085,418)	\$6,606,037	16.43%	95.77%
2017	0.064857%	(\$2,253,471)	NA	(\$2,253,471)	\$6,363,072	35.41%	90.97%
2016	0.066965%	(\$3,371,635)	NA	(\$3,371,635)	\$6,312,419	53.41%	85.82%
2015	0.058989%	(\$2,107,711)	NA	(\$2,107,711)	\$5,233,775	40.27%	89.20%
Schedule of Proportionate Share of Net Pension Liability - PSERS 2 - As of June 30,							
2020	0.052330%	\$7,201	NA	\$7,201	\$321,174	2.24%	101.68%
2019	0.066631%	\$8,665	NA	\$8,665	\$307,172	2.82%	101.85%
2018	0.086340%	(\$1,070)	NA	(\$1,070)	\$338,707	0.32%	99.79%
2017	0.102306%	(\$20,045)	NA	(\$20,045)	\$362,627	5.53%	96.26%
2016	0.096576%	(\$41,043)	NA	(\$41,043)	\$313,078	13.11%	90.41%
2015	0.099662%	(\$18,190)	NA	(\$18,190)	\$291,813	6.23%	95.08%
Schedule of Proportionate Share of Net Pension Liability - LEOFF 1 - As of June 30,							
2020	0.010793%	\$203,827	\$1,378,679	\$1,582,506	\$0	NA	146.88%
2019	0.010562%	\$208,770	\$1,412,113	\$1,620,883	\$0	NA	148.78%
2018	0.010376%	\$188,376	\$1,274,174	\$1,462,550	\$0	NA	144.42%
2017	0.010269%	\$155,803	\$1,053,850	\$1,209,653	\$0	NA	135.96%
2016	0.010085%	\$103,904	\$702,806	\$806,710	\$0	NA	123.74%
2015	0.010003%	\$120,558	\$815,453	\$936,011	\$0	NA	127.36%
Schedule of Proportionate Share of Net Pension Liability - LEOFF 2 - As of June 30,							
2020	0.098133%	\$2,001,770	\$1,279,980	\$3,281,750	\$3,724,361	53.75%	115.83%
2019	0.100590%	\$2,330,361	\$1,526,075	\$3,856,436	\$3,532,560	65.97%	119.43%
2018	0.098497%	\$1,999,704	\$1,294,770	\$3,294,474	\$3,258,625	61.37%	118.50%
2017	0.099541%	\$1,381,307	\$896,028	\$2,277,335	\$3,113,818	44.36%	113.36%
2016	0.108453%	\$630,795	\$411,233	\$1,042,028	\$3,285,501	19.20%	106.04%
2015	0.095575%	\$982,320	\$649,516	\$1,631,836	\$2,773,970	35.41%	111.67%
Schedule of Proportionate Share of Net Pension Asset - VFFRPF - As of June 30,							
2020	0.231660%	\$81,637	NA	\$81,637	\$0	NA	115.32%
2019	0.196404%	\$133,541	NA	\$133,541	\$0	NA	135.30%
2018	0.190337%	\$100,582	NA	\$100,582	\$0	NA	127.46%
2017	0.154256%	\$57,229	NA	\$57,229	\$0	NA	119.25%
2016	0.514359%	\$88,310	NA	\$88,310	\$0	NA	108.97%
2015	0.370000%	\$71,915	NA	\$71,915	\$0	NA	110.22%

Schedule of Employer Contributions

Year	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
Schedule of Employer Contributions - PERS 1 - As of December 31,					
2020	\$371,897	\$371,897	\$0	\$7,542,030	4.93%
2019	\$376,956	\$376,956	\$0	\$7,456,249	5.06%
2018	\$366,725	\$366,725	\$0	\$7,093,319	5.17%
2017	\$344,676	\$344,676	\$0	\$6,902,190	4.99%
2016	\$332,568	\$332,568	\$0	\$6,884,216	4.83%
2015	\$293,354	\$293,354	\$0	\$6,143,382	4.78%
Schedule of Employer Contributions - PERS 2/3 - As of December 31,					
2020	\$558,669	\$558,669	\$0	\$7,053,893	7.92%
2019	\$545,891	\$545,891	\$0	\$7,072,209	7.72%
2018	\$498,162	\$498,162	\$0	\$6,644,660	7.50%
2017	\$444,217	\$444,217	\$0	\$6,474,592	6.86%
2016	\$399,130	\$399,130	\$0	\$6,440,650	6.20%
2015	\$328,398	\$328,398	\$0	\$5,831,914	5.63%
Schedule of Employer Contributions - PSERS 2 - As of December 31,					
2020	\$25,880	\$25,880	\$0	\$359,440	7.20%
2019	\$19,826	\$19,826	\$0	\$277,633	7.14%
2018	\$23,772	\$23,772	\$0	\$346,950	6.85%
2017	\$22,233	\$22,233	\$0	\$333,659	6.66%
2016	\$23,234	\$23,234	\$0	\$352,978	6.58%
2015	\$20,172	\$20,172	\$0	\$311,468	6.48%
Schedule of Employer Contributions - LEOFF 1 - As of December 31,					
2020	\$0	\$0	\$0	\$0	NA
2019	\$0	\$0	\$0	\$0	NA
2018	\$0	\$0	\$0	\$0	NA
2017	\$0	\$0	\$0	\$0	NA
2016	\$0	\$0	\$0	\$0	NA
2015	\$0	\$0	\$0	\$0	NA
Schedule of Employer Contributions - LEOFF 2 - As of December 31,					
2020	\$199,970	\$199,970	\$0	\$3,882,902	5.15%
2019	\$188,263	\$188,263	\$0	\$3,620,215	5.20%
2018	\$178,425	\$178,425	\$0	\$3,398,571	5.25%
2017	\$162,661	\$162,661	\$0	\$3,157,762	5.15%
2016	\$154,848	\$154,848	\$0	\$3,066,293	5.05%
2015	\$162,389	\$162,389	\$0	\$3,215,624	5.05%
Schedule of Employer Contributions - VFFRPF - As of December 31,					
2020	\$450	\$450	\$0	\$0	NA
2019	\$390	\$390	\$0	\$0	NA
2018	\$390	\$390	\$0	\$0	NA
2017	\$330	\$330	\$0	\$0	NA
2016	\$390	\$390	\$0	\$0	NA
2015	\$390	\$390	\$0	\$0	NA

Please see Note 7 – Pension Plans in the accompanying Notes to the Financial Statements.

OPEB

Schedule of Changes in Total OPEB Liability and Related Ratios

Schedule of Changes in Total OPEB Liability and Related Ratios			
LEOFF 1			
For the year ended December 31,			
	2020	2019	2018
Total OPEB liability-beginning	\$2,466,542	\$2,637,199	\$2,723,278
Service costs	-	-	-
Interest costs	84,655	100,266	96,002
Change in assumptions	433,367	(177,317)	(98,022)
Change in benefit terms	-	-	-
Estimated benefit payments	(96,514)	(93,606)	(84,059)
Other changes	-	-	-
Total OPEB liability-ending	\$2,888,050	\$2,466,542	\$2,637,199
Covered-employee payroll	-	-	-
Total OPEB liability as a % of covered payroll	NA	NA	NA

Please see Note 16 – Defined Benefit Other Postemployment Benefit (OPEB) Plan in the accompanying Notes to the Financial Statements.

City of Oak Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via Parks & Recreation)	Clean Vessel Act	15.616	CV 719-321	19,667	-	19,667	-	1, 2, 8
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF (via Commerce)	Violence Against Women Formula Grants	16.588	F19-31103-070- OHPD	6,902	-	6,902	-	1, 2, 8
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF (via Commerce)	Violence Against Women Formula Grants	16.588	F19-31103-069 Legal	4,886	-	4,886	4,088	1, 2, 8
Total CFDA 16.588:				11,788	-	11,788	4,088	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607	NA	-	4,369	4,369	-	1, 2, 8
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Transportation)	Highway Planning and Construction	20.205	LA-8480	132,053	-	132,053	-	1, 2, 8
Total Highway Planning and Construction Cluster:				132,053	-	132,053	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Traffic Safety Commission)	State and Community Highway Safety	20.600	2020-HVE-3771	1,784	-	1,784	-	1, 2, 8

The accompanying notes are an integral part of this schedule.

City of Oak Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Traffic Safety Commission)	State and Community Highway Safety	20.600	2021-HVE-4052	901	-	901	-	1, 2, 8
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Traffic Safety Commission)	State and Community Highway Safety	20.600	NA	2,639	-	2,639	-	1, 2, 8
Total Highway Safety Cluster:				5,324	-	5,324	-	
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Commerce)	Coronavirus Relief Fund	21.019	20-6541C-270	736,995	-	736,995	-	1, 2, 8
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Commerce - ISCO)	Coronavirus Relief Fund	21.019	RM-BOCC-2020-187	365,473	-	365,473	-	1, 2, 8
Total CFDA 21.019:				1,102,468	-	1,102,468	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Island County)	Homeland Security Grant Program	97.067	E18-184	23,348	-	23,348	-	1, 2, 7, 8
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Island County)	Homeland Security Grant Program	97.067	E19-199	21,357	-	21,357	-	1, 2, 7, 8

The accompanying notes are an integral part of this schedule.

**City of Oak Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

Federal Agency (Pass-Through Agency)	Expenditures						Passed through to Subrecipients	Note
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Island County)	Homeland Security Grant Program	97.067	E20-251	3,936	-	3,936	-	1, 2, 8
				48,641	-	48,641	-	
				1,319,941	4,369	1,324,310	4,088	
				Total CFDA 97.067:				
				Total Federal Awards Expended:				

The accompanying notes are an integral part of this schedule.

City of Oak Harbor, Washington

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2020

Note 1 – Basis of Accounting

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

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

Note 2 – Federal De Minimis Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 7 – Noncash Awards – Equipment (***Recommended if applicable***)

The City received equipment and supplies that were purchased with federal Homeland Security funds by the state of Washington. The amount reported on the Schedule is the value of the property on the date it was received by the City and priced by the state of Washington.

Note 8 – Program Costs

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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