



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## City of Oak Harbor

For the period January 1, 2022 through December 31, 2022

*Published January 22, 2024*

Report No. 1034034



Scan to see another great way  
we're helping advance  
#GoodGovernment



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

January 22, 2024

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

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy, State Auditor  
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](mailto:webmaster@sao.wa.gov).*

## TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	4
Independent Auditor's Report on the Financial Statements.....	6
Financial Section.....	10
About the State Auditor's Office.....	84

## 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, 2022 through December 31, 2022**

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 17, 2024.

### **REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

January 17, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **City of Oak Harbor January 1, 2022 through December 31, 2022**

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

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinions**

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Matters of Emphasis**

As discussed in Note 18 to the financial statements, in 2022, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on

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

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

Pat McCarthy, State Auditor

Olympia, WA

January 17, 2024

**City of Oak Harbor  
January 1, 2022 through December 31, 2022**

**REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2022

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2022

Statement of Activities – 2022

Governmental Funds Balance Sheet – 2022

Reconciliation of Balance Sheet to the Statement of Net Position – 2022

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Funds – 2022

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities – 2022

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and  
Actual – General Fund – 2022

Statement of Net Position – Proprietary Funds – 2022

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –  
2022

Statement of Cash Flows – Proprietary Funds – 2022

Notes to the Financial Statements – 2022

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share – PERS 1, PERS 2/3, PSERS 2, LEOFF 1, LEOFF 2,  
VFFRPF – 2022

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS 2, LEOFF 1, LEOFF 2,  
VFFRPF – 2022

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 – 2022

## 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, 2022. 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 2022 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 2022, as compared to 2021.
- City of Oak Harbor assets exceeded its liabilities at the close of the 2022 fiscal year by \$185.94 million (net position). Of this amount, \$67.08 million (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- Reported net position increased \$13.45 million. The overall net position of governmental activities increased \$5.91 million, or 7.43%, during 2022. Net position of business-type activities increased \$7.54 million, or 8.11%, during 2022.

- Total liabilities and deferred inflows decreased by \$14.05 million or 10.02%, primarily due to decreases in pension deferred inflows, decreases in unearned revenue due to the expenditure of American Rescue Plan Act (ARPA) funds, and 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 \$3.81 million, or 1.74%. Total capital assets from governmental activities decreased \$73,416. Capital assets of business-type activities decreased \$3.74 million or 2.14%. 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 2022, the City's governmental funds reported combined ending fund balances of \$28.32 million. Approximately 56.02% of this total amount, or \$15.86 million, is available for spending at the government's discretion (committed, assigned, and unassigned fund balances). 56.6% or \$16.03 million is in the General Fund and 43.4% or \$12.29 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 \$16.03 million. Of this amount, 93.13%, or \$14.93 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's 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, 2022, totals \$185.94 million. The following is a condensed version of the government-wide statement of net position comparing fiscal year 2022 to 2021.

City of Oak Harbor  
Net Position  
December 31, 2021 and 2022

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Capital assets(net)	\$ 44,052,153	\$ 44,125,569	\$ 170,981,832	\$ 174,721,325	\$ 215,033,986	\$ 218,846,894
Current and other assets	47,291,496	51,192,556	45,901,888	41,418,426	93,193,384	92,610,981
Total assets	91,343,649	95,318,125	216,883,720	216,139,751	308,227,369	311,457,875
Deferred outflows of resources	3,156,844	966,841	751,712	314,849	3,908,556	1,281,690
Total assets and deferred outflows of resources	94,500,493	96,284,965	217,635,432	216,454,600	312,135,926	312,739,565
Current and other liabilities	\$ 1,109,954	\$ 4,428,697	\$ 6,721,920	\$ 6,925,196	\$ 7,831,874	\$ 11,353,893
Long-term liabilities	4,742,643	4,762,331	109,643,765	114,574,014	114,386,408	119,336,345
Total liabilities	5,852,597	9,191,028	116,365,685	121,499,210	122,218,283	130,690,238
Deferred inflows of resources	3,285,176	7,638,354	691,335	1,919,350	3,976,511	9,557,704
Total Liability and deferred inflows of resources	9,137,773	16,829,382	117,057,020	123,418,559	126,194,794	140,247,942
<b>NET POSITION</b>						
Net investment in capital assets	\$ 43,862,060	\$ 43,899,309	\$ 56,857,618	\$ 55,886,750	\$ 100,719,678	\$ 99,786,059
Restricted	17,161,870	15,017,908	978,272	609,646	18,140,142	15,627,554
Unrestricted	24,338,790	20,538,366	42,742,522	36,539,645	67,081,312	57,078,010
Total net position	\$ 85,362,720	\$ 79,455,583	\$ 100,578,412	\$ 93,036,040	\$ 185,941,132	\$ 172,491,624

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

As of the end of 2022, the largest component of the City's total net position at \$100.72 million, or 54.17%, 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 \$18.14 million, or 9.76%, of the City's total net position is subject to legal restrictions.

The net position of governmental activities increased by \$5.91 million or 7.43% mainly due to better financial results than originally expected and pension deferred inflow/outflow results. The net position of business-type activities increased \$7.54 million, or 8.11%, mainly due to pension deferred inflow/outflow results and paying down the principal on the State Revolving Fund loans used to finance the Clean Water Facility.

At the end of the fiscal year, the City of Oak Harbor reported positive balances in all three categories of net position for the government as a whole and 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 2022 and 2021:

City of Oak Harbor  
Changes in Net Position  
December 31, 2021 and 2022

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>REVENUES</b>						
Program revenues:						
Charges for Services	\$ 3,262,210	\$ 3,091,435	\$ 28,011,083	\$ 26,344,085	\$ 31,273,294	\$ 29,435,519
Operating Grants and Contributions	6,466,953	170,320	54,746	9,938	6,521,698	180,258
Capital Grants and Contributions	283,576	592,501	524,545	587,470	808,121	1,179,971
General revenues:						
Property taxes	4,607,951	4,521,573	-	-	4,607,951	4,521,573
Sales and use taxes	6,208,610	6,068,350	-	-	6,208,610	6,068,350
Other taxes	4,985,012	4,871,306	55,721	43,975	5,040,734	4,915,281
Licenses and permits	527,327	539,339	2,881	2,881	530,208	542,220
Unrestricted grants and contributions	2,106,873	2,104,787	-	-	2,106,873	2,104,787
Investment earnings	29,256	(32,984)	(155,463)	(50,235)	(126,206)	(83,219)
Miscellaneous	288,936	480,965	504,701	239,641	793,638	720,606
Gain (loss) on sale of assets	-	(166,323)	-	-	-	(166,323)
Special Item (Proj. Dispos.)	(65,124)	-	(64,925)	-	(130,049)	-
Total revenues	<u>28,701,582</u>	<u>22,241,269</u>	<u>28,933,289</u>	<u>27,177,754</u>	<u>57,634,871</u>	<u>49,419,024</u>
<b>EXPENSES</b>						
Governmental activities:						
General government	3,387,110	2,195,535	-	-	3,387,110	2,195,535
Judicial	418,512	378,580	-	-	418,512	378,580
Public safety	8,898,661	7,361,512	-	-	8,898,661	7,361,512
Transportation	2,662,253	2,341,675	-	-	2,662,253	2,341,675
Natural and economic environment	1,651,046	1,376,862	-	-	1,651,046	1,376,862
Social services	588,855	306,205	-	-	588,855	306,205
Culture and recreation	2,142,412	2,227,901	-	-	2,142,412	2,227,901
Interest	6,105	6,076	-	-	6,105	6,076
Business-type activities:						
Water Fund	-	-	5,783,242	5,555,901	5,783,242	5,555,901
Sewer Fund	-	-	10,575,940	10,494,425	10,575,940	10,494,425
Solid Waste Fund	-	-	4,341,719	4,028,696	4,341,719	4,028,696
Storm Drain Fund	-	-	1,829,208	1,593,589	1,829,208	1,593,589
Marina Fund	-	-	1,900,337	1,504,487	1,900,337	1,504,487
Total expenses	<u>19,754,955</u>	<u>16,194,345</u>	<u>24,430,446</u>	<u>23,177,098</u>	<u>44,185,401</u>	<u>39,371,443</u>
Change in net position before special items and transfers	8,946,627	6,046,924	4,502,843	4,000,656	13,449,470	10,047,581
Transfers	(3,039,528)	-	3,039,528	-	-	-
Change in net position	<u>5,907,099</u>	<u>6,046,924</u>	<u>7,542,372</u>	<u>4,000,656</u>	<u>13,449,470</u>	<u>10,047,581</u>
Total net position - beginning	<u>79,455,621</u>	<u>73,408,659</u>	<u>93,036,040</u>	<u>89,035,384</u>	<u>172,491,662</u>	<u>162,444,043</u>
Total net position - ending	<u>\$ 85,362,720</u>	<u>\$ 79,455,583</u>	<u>\$ 100,578,412</u>	<u>\$ 93,036,040</u>	<u>\$ 185,941,132</u>	<u>\$ 172,491,624</u>

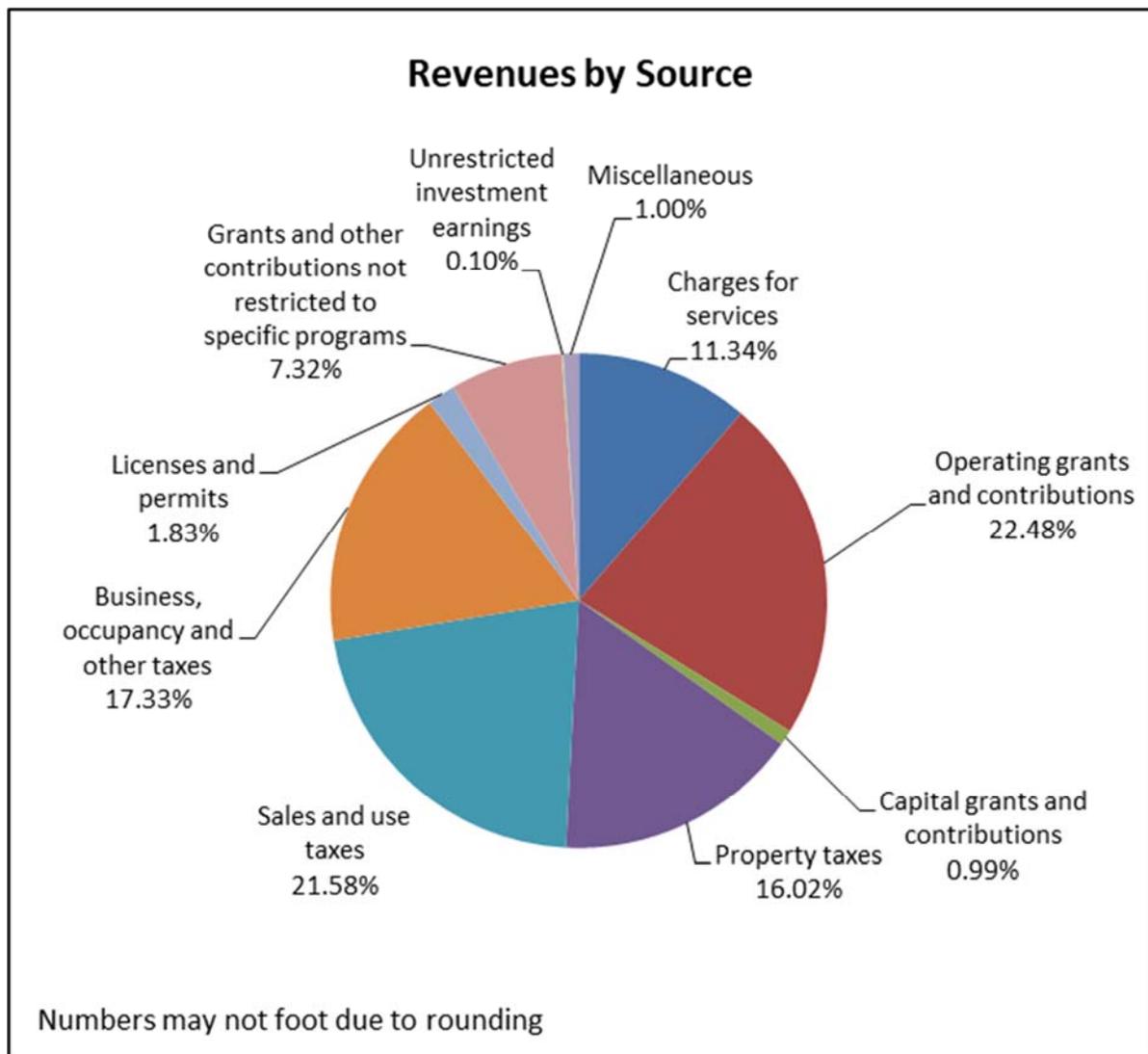
The notes to financial statements are an integral part of this statement.  
Note: Totals may not foot due to rounding.

In governmental activities, total revenues, exclusive of any losses on sales of assets, for 2022 show a \$6.36 million increase when compared to revenues of the previous year primarily better than expected revenue receipts such as sales tax. In business-type activities, revenues, exclusive of any losses on sale of assets or project disposals, have increased \$1.82 million primarily due to increased utility rate revenue.

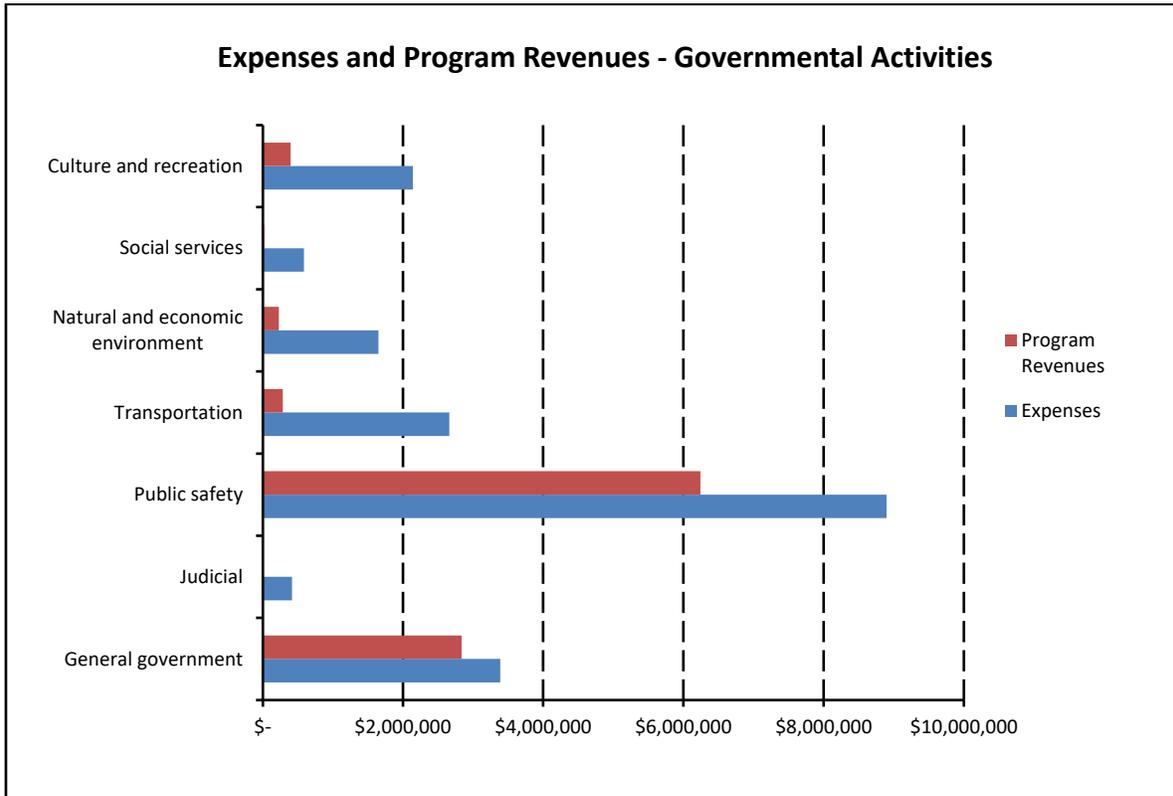
## GOVERNMENTAL ACTIVITIES ANALYSIS

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

In regard to governmental revenue types, excluding transfers and any loss on sales of assets or project disposals, taxes account for the largest revenue category, generating \$15.80 million, or 54.93%, of the \$28.77 million total governmental revenues. The majority of tax revenue is received in the General Fund which comprises \$13.11 million, or 54.98%, 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:

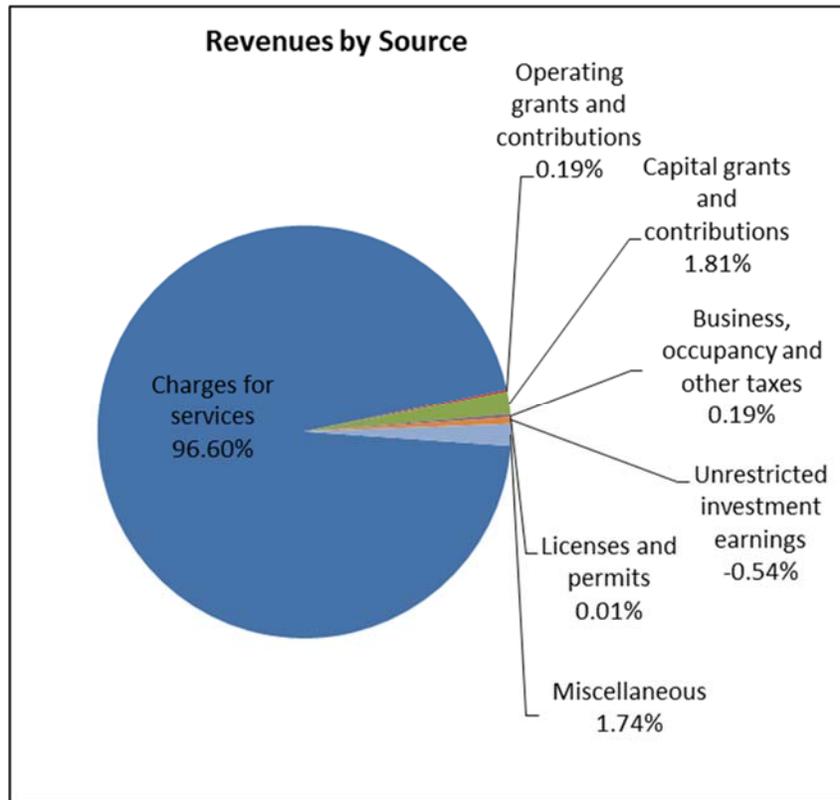


General government services encompass a variety of services including executive, development services, financial, legal, judicial, personnel, building maintenance, and audit/risk management. Security of persons and property services are provided by the City's Police Department who works to provide professional 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.

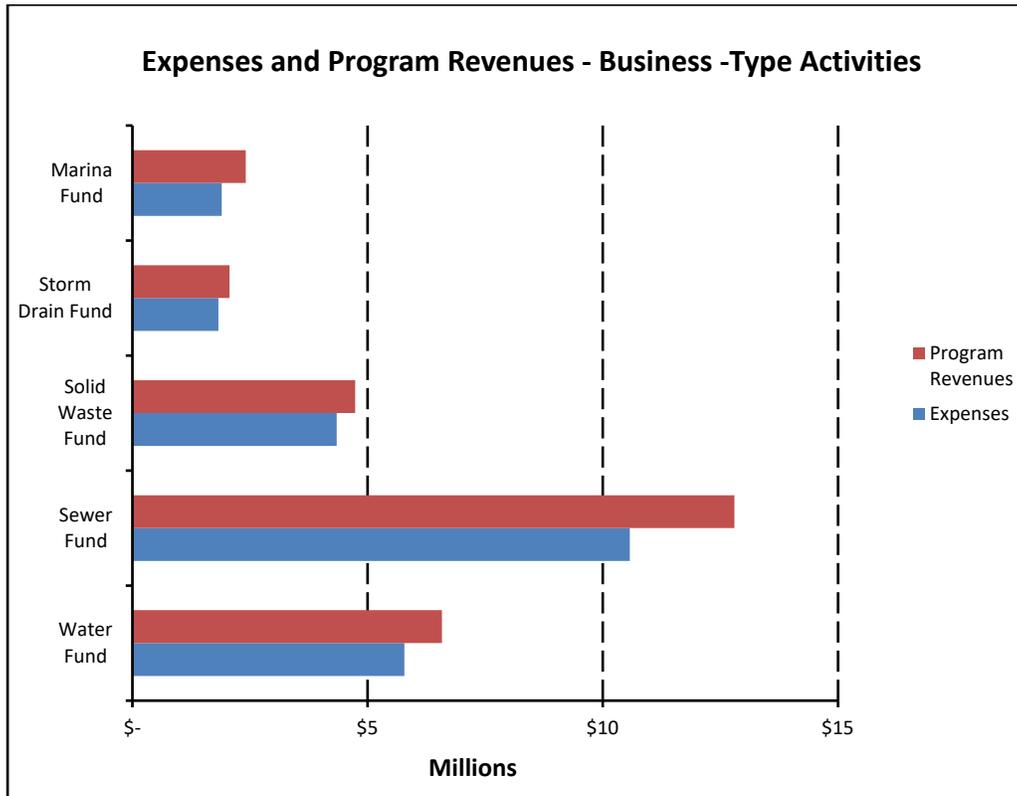
## BUSINESS-TYPE ACTIVITIES ANALYSIS

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

In regard to business-type revenue types, excluding transfers and any loss on sales of assets or project disposals, charges for services account for the vast majority of revenues for the City's utilities and marina, generating \$28.01 million, or 96.60%, of the \$29.00 million total business-type revenues.



**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 Resolution 22-28 on December 13, 2022, adjusting System Development Charges (SDCs) to match the results of a rate study conducted during 2022. The new SDCs will be phased in over five years starting on June 1, 2023.

- **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 1961 on September 20, 2022, which, effective on December 20, 2022, decreased the monthly service charges by 3% to \$118.41. The City adopted Resolution 22-28 on December 13, 2022, adjusting SDCs to match the results of a rate study conducted during 2022. The new SDCs will be phased in over five years starting on June 1, 2023.

- **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 1961 on September 20, 2022, which, effective on

December 20, 2022, better aligned the revenues generated by the components of the solid waste utility (roll-cart, recycling, yard-waste, dumpsters) with their expenses. The overall effect was to increase solid waste bills with optional yard-waste service by 7% and to decrease solid waste bills without optional yard-waste service by 5% for 2023 and then increase by more modest amounts in 2024 and 2025.

- **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 Resolution 22-28 on December 13, 2022, implementing a new storm drain SDCs to match the results of a rate study conducted during 2022. The new SDCs will be effective on June 1, 2023.

- **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 2022, business-type activity program revenues exceeded expenditures because rates were set to accommodate future capital improvements and rate funded system reinvestment.

### 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 met the requirement to qualify as a major fund. The remaining governmental funds are combined and reported in aggregate. The General Fund is 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 for all governmental funds equal \$28.94 million with total expenditures equaling \$21.27 million.

- **General Fund:** The General Fund accounts for the main operating revenues and expenditures of the City's governmental functions. Revenues and expenditures related to executive, judicial, finance, legal, public safety, building inspection and planning and park operations are some of the primary functions of the general government accounted for in General Fund. The majority of tax revenues are receipted into the General Fund supporting the governmental functions of the City. The fund balance for the General Fund has increased by \$3.92 million, or 32.43%.

- **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 for 2022.

## 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 primarily to account for grant and intergovernmental assistance revenues received and corresponding expenditures.

## CASH MANAGEMENT

Efforts to maximize interest earnings of temporary cash reserves have been as successful. Interest earnings for 2022 have increased dramatically as compared to the last few years and are projected to increase further in 2023. 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 2022 the outstanding balance was \$164,422.

In business-type activities, the City has an outstanding LTGO bond refunding issue in the amount of \$1,070,600 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 \$709,659 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 \$86,372,949 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 (\$2,526,249,219), or \$37,893,738, less outstanding general obligation debt originated without a public vote of \$1,070,600, for a total of \$36,823,138.
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 2022, the City's limit is \$25,262,492, 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 2022, the City's limit is \$63,156,230.

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 through the Transportation Benefit District established in 2018 by Ordinance 1835 and in 2019 by Resolution 19-16. Voters approved a 2/10<sup>th</sup> increase in sales tax beginning April 1, 2020.

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 vaccines and other treatments readily available, the worst of the effects of the COVID-19 pandemic are hopefully behind us. City revenues have recovered, all American Rescue Plan Act funds have been allocated, and we are confident that the City's financial outlook will continue to improve.

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

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

## **Changes in State Law**

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

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

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

The City Council continues to be proactive with other agencies to monitor and lobby for regulations to minimize the impact to the City and provide funds for City services. The City 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, affordable housing for low income families. This has been prioritized by 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, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 17,467,278	\$ 14,692,579	\$ 32,159,857
Investments	14,930,883	26,811,589	41,742,472
Accounts receivable (net)	445,171	3,019,037	3,464,208
Internal balances	-	43,703	43,703
Due from other governments	1,591,099	16,286	1,607,384
Inventories	31,598	50,867	82,465
Prepays	364,891	1,761	366,652
Restricted cash and cash equivalents	2,442,609	265,302	2,707,911
Total current assets	<u>37,273,529</u>	<u>44,901,123</u>	<u>82,174,652</u>
Noncurrent assets:			
Accounts receivable (net)	\$ 449,041	\$ -	\$ 449,041
Pension Asset	4,506,647	656,337	5,162,985
Land	12,092,799	5,394,966	17,487,766
Right-to-use asset - Land	-	187,960	187,960
Construction in progress	1,117,319	273,820	1,391,138
Intangible assets	50,000	-	50,000
Buildings and systems	4,454,000	128,832,719	133,286,719
Improvements and infrastructure	20,886,399	35,108,651	55,995,050
Machinery and equipment	5,421,657	1,183,717	6,605,374
Right-to-use Asset - M&E	29,979	-	29,979
L Restricted Cash	5,062,278	344,428	5,406,706
Total noncurrent assets	<u>54,070,120</u>	<u>171,982,597</u>	<u>226,052,718</u>
Total assets	<u>91,343,649</u>	<u>216,883,720</u>	<u>308,227,369</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OutARO	\$ -	\$ 102,010	\$ 102,010
OutPension	3,099,139	649,702	3,748,841
OutOPEB	57,705	-	57,705
Total deferred outflows of resources	<u>3,156,844</u>	<u>751,712</u>	<u>3,908,556</u>
Total assets and deferred outflows of resources	<u>94,500,493</u>	<u>217,635,432</u>	<u>312,135,926</u>
<b>LIABILITIES</b>			
Current liabilities:			
Internal balances	\$ -	\$ 43,703	\$ 43,703
Accounts payable	563,581	582,616	1,146,197
Lease liability	12,584	24,329	36,913
Accrued interest payable	569	466,691	467,260
Other current liabilities	162,970	279,632	442,601
Wages payable	75	37	112
Unearned revenue	38,725	-	38,725
ARO	-	11,555	11,555
Due to other governments	53,062	4,915,602	4,968,663
Compensated absences	162,979	44,056	207,035
Bonds payable, net	-	353,700	353,700
OPEB	115,409	-	115,409
Total current liabilities	<u>1,109,954</u>	<u>6,721,920</u>	<u>7,831,874</u>
Noncurrent liabilities:			
Lease liability	\$ 18,707	\$ 137,942	\$ 156,649
LCompensated absences	1,226,982	322,019	1,549,001
LARO	-	155,298	155,298
L Due to other governments	118,324	82,167,006	82,285,331
LBonds payable, net	-	26,481,933	26,481,933
LOPEB	2,472,292	-	2,472,292
Pension Obligation	906,337	379,567	1,285,904
Total noncurrent liabilities	<u>4,742,643</u>	<u>109,643,765</u>	<u>114,386,408</u>
Total liabilities	<u>5,852,597</u>	<u>116,365,685</u>	<u>122,218,283</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
InMisc	\$ 469,660	\$ -	\$ 469,660
InPension	2,815,516	691,335	3,506,851
Total deferred inflows of resources	<u>3,285,176</u>	<u>691,335</u>	<u>3,976,511</u>
Total liabilities and deferred inflows of resources	<u>9,137,773</u>	<u>117,057,020</u>	<u>126,194,794</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 43,862,060	\$ 56,857,618	\$ 100,719,678
Restricted for:			
Capital project	3,658,755	87,428	3,746,183
Culture and recreation	2,069,566	-	2,069,566
Debt service	-	257,000	257,000
Other programs	40,000	-	40,000
Pension	4,835,846	633,845	5,469,691
Public safety	55,851	-	55,851
Transportation	6,501,851	-	6,501,851
Unrestricted	24,338,790	42,742,522	67,081,312
Total net position	<u>\$ 85,362,720</u>	<u>\$ 100,578,412</u>	<u>\$ 185,941,132</u>

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

City of Oak Harbor  
Statement of Activities  
For the Year Ended December 31, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 3,387,110	\$ 2,614,572	\$ 197,229	\$ 23,776	\$ (551,533)	\$ -	\$ (551,533)
Judicial	418,512	966	-	-	(417,546)	-	(417,546)
Public safety	8,898,661	189,919	6,053,105	-	(2,655,638)	-	(2,655,638)
Transportation	2,662,253	74,910	14,866	195,822	(2,376,655)	-	(2,376,655)
Natural and economic environment	1,651,046	217,588	10,816	-	(1,422,643)	-	(1,422,643)
Social services	588,855	-	21,158	-	(567,697)	-	(567,697)
Culture and recreation	2,142,412	164,255	169,779	63,978	(1,744,400)	-	(1,744,400)
Interest	6,105	-	-	-	(6,105)	-	(6,105)
Total governmental activities	<u>19,754,955</u>	<u>3,262,210</u>	<u>6,466,953</u>	<u>283,576</u>	<u>(9,742,216)</u>	<u>-</u>	<u>(9,742,216)</u>
Business-type activities:							
Water Fund	5,783,242	6,536,667	2,791	40,387	-	796,602	796,602
Sewer Fund	10,575,940	12,780,669	3,211	15,000	-	2,222,940	2,222,940
Solid Waste Fund	4,341,719	4,735,392	1,640	-	-	395,313	395,313
Storm Drain Fund	1,829,208	1,963,116	3,133	99,158	-	236,200	236,200
Marina Fund	1,900,337	1,995,239	43,971	370,000	-	508,873	508,873
Total business-type activities	<u>24,430,446</u>	<u>28,011,083</u>	<u>54,746</u>	<u>524,545</u>	<u>-</u>	<u>4,159,928</u>	<u>4,159,928</u>
<b>Total primary government</b>	<b>\$ 44,185,401</b>	<b>\$ 31,273,294</b>	<b>\$ 6,521,698</b>	<b>\$ 808,121</b>	<b>\$ (9,742,216)</b>	<b>\$ 4,159,928</b>	<b>\$ (5,582,288)</b>
General revenues:							
Property taxes					4,607,951	-	4,607,951
Sales and use taxes					6,208,610	-	6,208,610
Business, occupancy and other taxes					4,985,012	55,721	5,040,734
Licenses and permits					527,327	2,881	530,208
Grants and other contributions not restricted to specific programs					2,106,873	-	2,106,873
Unrestricted investment earnings					29,256	(155,463)	(126,206)
Miscellaneous					288,936	504,701	793,638
Special Item (Proj. Dispos.)					(65,124)	(64,925)	(130,049)
Transfers					(3,039,528)	3,039,528	-
Total general revenues, special items, and transfers					<u>15,649,315</u>	<u>3,382,443</u>	<u>19,031,758</u>
Change in net position					5,907,099	7,542,372	13,449,470
Net position - beginning					79,455,621	93,036,040	172,491,662
Net position - ending					<u>\$ 85,362,720</u>	<u>\$ 100,578,412</u>	<u>\$ 185,941,132</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  
Balance Sheet  
Governmental Funds  
December 31, 2022

	General Fund	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash & cash equivalents	\$ 8,791,456	\$ 5,020,584	\$ 13,812,040
Investments	5,525,732	-	5,525,732
Accounts receivable (net)	892,638	1,575	894,213
Due from other governments	1,085,302	486,182	1,571,484
Prepays	127,755	-	127,755
Restricted cash	376,572	7,128,314	7,504,886
Total assets	<u>\$ 16,799,455</u>	<u>\$ 12,636,656</u>	<u>\$ 29,436,110</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 122,583	\$ 262,078	\$ 384,661
Deposits	79,283	31,905	111,188
Retainage	-	51,782	51,782
Unearned revenue	38,210	515	38,725
Wages payable	75	-	75
Total liabilities	<u>240,151</u>	<u>346,280</u>	<u>586,431</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
InMisc	\$ 469,660	\$ -	\$ 469,660
InTaxes	63,076	-	63,076
Total deferred inflows of resources	<u>532,736</u>	<u>-</u>	<u>532,736</u>
Total liabilities and deferred inflows of resources	<u>772,887</u>	<u>346,280</u>	<u>1,119,167</u>
<b>FUND BALANCES (DEFICITS)</b>			
Nonspendable	\$ 127,755	\$ -	\$ 127,755
Restricted	973,555	11,352,469	12,326,024
Committed	1,909,776	937,907	2,847,683
Assigned	987,200	-	987,200
Unassigned	12,028,282	-	12,028,282
Total fund balances (deficits)	<u>\$ 16,026,568</u>	<u>\$ 12,290,376</u>	<u>\$ 28,316,944</u>
Total liabilities and fund balances (deficits)	<u>\$ 16,799,455</u>	<u>\$ 12,636,656</u>	<u>\$ 29,436,110</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  
For the Year Ended December 31, 2022**

Fund balances of governmental funds		28,316,943.91
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	13,260,117.83	
Historical cost of assets being depreciated	61,548,018.27	
Accumulated depreciation	<u>(37,144,199.24)</u>	
		37,663,937
Long-term assets are not available to pay for current period expenditures and therefore deferred:		
Other long-term assets	19,615	
Taxes receivable	<u>63,076</u>	
		82,690
Pension asset, pension liabilities, and pension deferred items are not reported in the funds.		
		3,760,926
Accounts payable	0	
Compensated absences	(1,261,235)	
Bonds and loans payable	(201,603)	
Other post-employment benefits	317,730	
Other post-employment benefits, including deferred items	<u>(2,847,726)</u>	
		(3,992,834)
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>19,531,057</u>
Net position of governmental activities		<u><u>85,362,720</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, 2022

	General Fund	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 13,113,360	\$ 2,687,831	\$ 15,801,191
Licenses and permits	503,347	23,980	527,327
Intergovernmental	6,946,665	1,928,812	8,875,477
Charges for services	2,974,755	287,456	3,262,210
Fines and forfeits	51,344	-	51,344
Interest revenue	68,671	103,945	172,616
Miscellaneous	191,356	61,382	252,738
Total revenues	<u>23,849,498</u>	<u>5,093,406</u>	<u>28,942,904</u>
<b>EXPENDITURES</b>			
Current:			
General government	3,762,122	-	3,762,122
Judicial	418,512	-	418,512
Public safety	9,240,159	-	9,240,159
Transportation	-	1,897,625	1,897,625
Natural and economic environment	1,444,139	289,879	1,734,018
Social services	7,310	583,644	590,954
Culture and recreation	1,528,613	112,855	1,641,469
Debt service:			
Principal retirement	8,532	50,535	59,066
Interest	1,142	9,355	10,497
Capital outlay:			
Capital outlay	488,097	1,424,052	1,912,149
Total expenditures	<u>16,898,627</u>	<u>4,367,944</u>	<u>21,266,571</u>
Excess (deficiency) of revenues over expenditures	<u>6,950,871</u>	<u>725,462</u>	<u>7,676,333</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,150,000	1,916,260	3,066,260
Transfers out	(4,176,019)	(2,104,698)	(6,280,718)
Total other financing sources (uses)	<u>(3,026,019)</u>	<u>(188,439)</u>	<u>(3,214,458)</u>
Net change in fund balances	3,924,852	537,023	4,461,875
Fund balances - beginning	12,101,716	11,753,353	23,855,069
Fund balances - ending	<u>\$ 16,026,568</u>	<u>\$ 12,290,376</u>	<u>\$ 28,316,944</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, 2022**

Net change in fund balances - total government funds		4,461,875
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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</p>		
Capital outlay	1,912,149	
Depreciation	<u>(1,513,814)</u>	398,334
<p>The effect of various miscellaneous transactions involving capital assets not reported in governmental funds:</p>		
Contributions of capital assets	45,578	
Disposal of capital assets	<u>(17,328)</u>	28,250
<p>Proceeds from and repayment of governmental long-term debt is not reported in the funds.</p>		
Taxes	382	
Grants	<u>(116,051)</u>	(115,669)
Change in accounts payable	0	
Compensated absences	(42,851)	
Pension expense	440,208	
Other post-employment benefits, including deferred items	<u>452,390</u>	849,748
<p>Internal service funds are used by management to charge the costs of fleet management, shop facilities and information systems to individual funds. The net revenues and expenses of the internal service funds are reported with governmental activities in the statement of activities.</p>		
		220,946
Change in net position of governmental activities		<u><u>5,907,099</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 - Budget and Actual  
General Fund  
For the Year Ended December 31, 2022

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 11,944,372	\$ 11,944,372	\$ 13,113,360	\$ 1,168,988
Licenses and permits	503,944	503,944	503,347	(597)
Intergovernmental	761,290	5,605,890	6,946,665	1,340,775
Charges for services	2,621,872	2,621,872	2,974,755	352,883
Fines and forfeits	101,200	101,200	51,344	(49,856)
Interest revenue	48,000	48,000	68,671	20,671
Miscellaneous	141,100	141,100	191,356	50,256
Total revenues	<u>16,121,778</u>	<u>20,966,378</u>	<u>23,849,498</u>	<u>2,883,120</u>
<b>EXPENDITURES</b>				
Current:				
General government	3,573,936	3,958,415	3,762,122	196,293
Judicial	377,500	377,500	418,512	(41,012)
Public safety	8,974,816	9,431,342	9,240,159	191,183
Natural and economic environment	1,330,536	1,409,136	1,444,139	(35,003)
Social services	8,900	8,900	7,310	1,590
Culture and recreation	1,648,374	1,762,174	1,528,613	233,561
Total current	<u>15,914,062</u>	<u>16,947,467</u>	<u>16,400,856</u>	<u>546,611</u>
Debt service:				
Principal retirement	-	-	8,532	(8,532)
Interest	-	-	1,142	(1,142)
Total debt service	<u>-</u>	<u>-</u>	<u>9,674</u>	<u>(9,674)</u>
Capital outlay:				
Capital outlay	565,000	1,579,864	488,097	1,091,767
Total capital outlay	<u>565,000</u>	<u>1,579,864</u>	<u>488,097</u>	<u>1,091,767</u>
Total expenditures	<u>16,479,062</u>	<u>18,527,332</u>	<u>16,898,627</u>	<u>1,628,705</u>
Excess (deficiency) of revenues over expenditures	<u>(357,284)</u>	<u>2,439,046</u>	<u>6,950,871</u>	<u>4,511,825</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	185,000	315,000	1,150,000	835,000
Transfers out	(226,111)	(4,912,511)	(4,176,019)	736,492
Transfers netting	-	500,000	-	(500,000)
Total other financing sources (uses)	<u>(41,111)</u>	<u>(4,097,511)</u>	<u>(3,026,019)</u>	<u>1,071,492</u>
Net change in fund balances	(398,395)	(1,658,465)	3,924,852	5,583,317
Fund balances - beginning	12,101,716	12,101,716	12,101,716	-
Fund balances - ending	<u>\$ 11,703,321</u>	<u>\$ 10,443,251</u>	<u>\$ 16,026,568</u>	<u>\$ 5,583,317</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, 2022

	Business-type Activities						Governmental Activities
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>							
Current assets:							
Cash & cash equivalents	\$ 3,978,934	\$ 4,673,898	\$ 2,692,483	\$ 993,238	\$ 2,354,027	\$ 14,692,579	\$ 3,655,238
Investments	13,730,813	10,398,363	-	2,682,412	-	26,811,589	9,405,151
Accounts receivable (net)	712,415	1,411,247	514,486	218,725	162,165	3,019,037	-
Due from other governments	-	-	-	-	16,286	16,286	-
Inventories	-	-	-	-	50,867	50,867	31,598
Prepays	-	746	-	750	265	1,761	237,136
Restricted cash	91,367	-	74,739	-	99,197	265,302	-
Internal accounts	-	43,703	-	-	-	43,703	-
Total current assets	<u>18,513,529</u>	<u>16,527,956</u>	<u>3,281,707</u>	<u>3,895,125</u>	<u>2,682,806</u>	<u>44,901,123</u>	<u>13,329,123</u>
Noncurrent assets:							
Pension asset	102,648	208,287	155,094	88,102	102,205	656,337	342,377
Land	104,351	1,626,584	201,810	286,800	3,175,421	5,394,966	-
Right-to-use asset-leases	-	-	-	-	187,960	187,960	1,617
Construction in progress	227,166	7,945	-	32,010	6,699	273,200	-
Buildings and systems	432	128,333,844	-	-	498,443	128,832,719	2,504,869
Improvements and infrastructure	19,022,963	12,344,893	-	2,618,538	1,122,257	35,108,651	183,633
Machinery and equipment	231,623	772,576	16,915	16,915	145,686	1,183,717	3,698,097
LRestricted Cash	87,428	-	-	-	257,000	344,428	-
Total noncurrent assets	<u>19,776,611</u>	<u>143,294,130</u>	<u>373,819</u>	<u>3,042,366</u>	<u>5,495,671</u>	<u>171,982,597</u>	<u>6,730,593</u>
Total assets	<u>\$ 38,290,139</u>	<u>\$ 159,822,087</u>	<u>\$ 3,655,526</u>	<u>\$ 6,937,491</u>	<u>\$ 8,178,477</u>	<u>\$ 216,883,720</u>	<u>\$ 20,059,626</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
OutARO	14,614	-	-	-	87,396	102,010	-
OutPension	101,805	206,006	153,809	86,855	101,227	649,702	339,346
Total deferred outflows of resources	<u>116,419</u>	<u>206,006</u>	<u>153,809</u>	<u>86,855</u>	<u>188,623</u>	<u>751,712</u>	<u>339,346</u>
Total assets and deferred outflows of resources	<u>\$ 38,406,558</u>	<u>\$ 160,028,093</u>	<u>\$ 3,809,335</u>	<u>\$ 7,024,346</u>	<u>\$ 8,367,100</u>	<u>\$ 217,635,432</u>	<u>\$ 20,399,062</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable	233,925	99,046	166,824	10,867	71,955	582,616	178,920
Lease liability	-	-	-	-	24,329	24,329	1,644
Deposits	91,367	-	74,739	20	113,507	279,632	-
Interest payable	532	465,390	-	769	-	466,691	-
Wages payable	529	-	-	-	(492)	37	-
Compensated absences	2,895	2,882	17,154	17,912	3,214	44,056	14,069
ARO	11,555	-	-	-	-	11,555	-
Due to other governments	51,344	4,805,673	-	58,585	-	4,915,602	-
Bonds payable, net	-	-	-	-	353,700	353,700	-
Internal accounts	43,703	-	-	-	-	43,703	-
Total current liabilities	<u>435,850</u>	<u>5,372,990</u>	<u>258,717</u>	<u>88,152</u>	<u>566,211</u>	<u>6,721,920</u>	<u>194,633</u>
Noncurrent liabilities:							
Lease liability	-	-	-	-	137,942	137,942	-
LARO	23,110	-	-	-	132,188	155,298	-
LDue to other governments	131,052	81,567,276	-	468,678	-	82,167,006	-
LCompensated absences	26,719	26,448	118,823	120,487	29,542	322,019	114,658
LBonds payable, net	-	25,765,033	-	-	716,900	26,481,933	-
Pension obligation	59,362	120,455	89,693	50,951	59,107	379,567	197,263
Total noncurrent liabilities	<u>240,243</u>	<u>107,479,212</u>	<u>208,516</u>	<u>640,115</u>	<u>1,075,679</u>	<u>109,643,765</u>	<u>311,921</u>
Total liabilities	<u>676,093</u>	<u>112,852,202</u>	<u>467,233</u>	<u>728,267</u>	<u>1,641,890</u>	<u>116,365,685</u>	<u>506,554</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
InPension	108,362	218,304	163,325	93,910	107,433	691,335	361,451
Total deferred inflows of resources	<u>108,362</u>	<u>218,304</u>	<u>163,325</u>	<u>93,910</u>	<u>107,433</u>	<u>691,335</u>	<u>361,451</u>
Total liabilities and deferred inflows of resources	<u>784,455</u>	<u>113,070,506</u>	<u>630,558</u>	<u>822,178</u>	<u>1,749,323</u>	<u>117,057,020</u>	<u>868,005</u>
<b>NET POSITION</b>							
Net investment in capital assets	19,360,436	30,947,861	218,725	2,427,001	3,903,595	56,857,618	6,386,573
Restricted for:							
Capital project	87,428	-	-	-	-	87,428	-
Debt service	-	-	-	-	257,000	257,000	-
Pension	98,889	202,239	149,818	83,973	98,925	633,845	329,703
Unrestricted	<u>18,075,350</u>	<u>15,807,486</u>	<u>2,810,234</u>	<u>3,691,195</u>	<u>2,358,257</u>	<u>42,742,522</u>	<u>12,814,781</u>
Total net position	<u>\$ 37,622,103</u>	<u>\$ 46,957,586</u>	<u>\$ 3,178,777</u>	<u>\$ 6,202,169</u>	<u>\$ 6,617,777</u>	<u>\$ 100,578,412</u>	<u>\$ 19,531,057</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, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Year Ended December 31, 2022

	Business-type Activities					Governmental Activities	
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total Enterprise Funds	Internal Service Funds
<b>OPERATING REVENUES</b>							
Charges for services	\$ 6,346,544	\$ 12,742,869	\$ 4,735,392	\$ 1,947,613	\$ 1,995,239	\$ 27,767,658	\$ 3,039,223
System development revenue	189,481	37,800	-	-	-	227,281	-
Other operating revenues	641	-	-	15,503	-	16,145	2,409,064
Total operating revenues	<u>6,536,667</u>	<u>12,780,669</u>	<u>4,735,392</u>	<u>1,963,116</u>	<u>1,995,239</u>	<u>28,011,083</u>	<u>5,448,286</u>
<b>OPERATING EXPENSES</b>							
ARO	3,463	-	-	-	16,133	19,596	-
Cost of sales and service	2,654,545	1,284,526	807,684	469,327	1,091,083	6,307,166	2,477,056
Contractual services	70,462	203,076	21,878	54,544	58,432	408,391	628,669
Utilities	20,500	563,586	1,775,537	-	81,569	2,441,191	82,583
Taxes	692,641	1,039,494	516,577	146,933	5,494	2,401,140	-
Repairs and maintenance	178,594	181,585	498,745	123,857	121,560	1,104,341	590,012
Sinking Fund Contributions	269,515	277,459	298,020	67,044	16,618	928,656	159,096
Cost Allocation	716,220	795,651	327,854	678,293	245,528	2,763,546	288,442
Insurance claims and expenses	76,677	262,924	62,250	22,798	54,996	479,645	70,073
Depreciation	1,042,682	3,557,704	1,429	213,371	152,575	4,967,763	923,110
Other operating expenses	56,925	87,382	31,744	51,661	39,155	266,867	29,169
Total operating expenses	<u>5,782,223</u>	<u>8,253,386</u>	<u>4,341,719</u>	<u>1,827,829</u>	<u>1,883,144</u>	<u>22,088,302</u>	<u>5,248,210</u>
Operating income (loss)	<u>754,443</u>	<u>4,527,283</u>	<u>393,673</u>	<u>135,288</u>	<u>112,095</u>	<u>5,922,782</u>	<u>200,076</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Interest revenue	(124,421)	(75,083)	39,661	(15,696)	20,076	(155,463)	(143,359)
External subsidies	2,791	18,211	1,640	48,173	413,971	484,786	-
Other nonoperating revenues	14,915	-	1,670	4,783	80,532	101,899	-
Interest expense	(1,019)	(2,322,554)	-	(1,379)	(17,193)	(2,342,144)	(157)
Insurance recoveries	-	-	-	-	461,404	461,404	13,476
Total nonoperating revenues (expenses)	<u>(107,735)</u>	<u>(2,379,426)</u>	<u>42,971</u>	<u>35,882</u>	<u>958,790</u>	<u>(1,449,518)</u>	<u>(130,040)</u>
Income (loss) before contributions and transfers:	646,709	2,147,857	436,643	171,169	1,070,885	4,473,264	70,035
Capital contributions	\$ 40,387	\$ -	\$ -	\$ 54,118	\$ -	\$ 94,505	\$ -
Transfers in	1,609,528	1,505,000	-	-	150,000	3,264,528	174,930
Transfers out	(75,000)	(75,000)	-	(75,000)	-	(225,000)	-
External subsidies	-	-	-	-	-	-	23,776
Special Item (Proj. Abandon.)	-	(34,103)	-	(30,823)	-	(64,925)	(47,795)
Change in net position	2,221,624	3,543,755	436,643	119,465	1,220,885	7,542,372	220,946
Total net position - beginning	\$ 35,400,479	\$ 43,413,832	\$ 2,742,133	\$ 6,082,704	\$ 5,396,892	\$ 93,036,040	\$ 19,310,111
Total net position - ending	<u>\$ 37,622,103</u>	<u>\$ 46,957,586</u>	<u>\$ 3,178,777</u>	<u>\$ 6,202,169</u>	<u>\$ 6,617,777</u>	<u>\$ 100,578,412</u>	<u>\$ 19,531,057</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, 2022

	Business-type Activities - Enterprise Funds					Governmental Activities	
	Water Fund	Sewer Fund	Solid Waste Fund	Storm Drain Fund	Marina Fund	Total Enterprise Funds	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash receipts from customers	\$ 6,631,570	\$ 12,869,329	\$ 4,795,648	\$ 1,960,113	\$ 1,997,354	\$ 28,254,015	\$ 528
Receipts from interfund services provided	641	-	-	15,503	-	16,145	5,448,286
Payments to suppliers	(3,672,927)	(2,791,553)	(2,763,186)	(480,248)	(1,076,294)	(10,784,208)	(2,351,762)
Payments to employees	(370,784)	(801,989)	(546,169)	(307,946)	(415,052)	(2,441,941)	(1,281,157)
Payments for interfund services used	(1,139,037)	(1,253,112)	(1,124,619)	(869,194)	(264,404)	(4,650,367)	(880,366)
Net cash provided (used) by operating activities	1,449,464	8,022,675	361,673	318,228	241,604	10,393,644	935,530
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Transfers from other funds	1,609,528	1,505,000	-	-	150,000	3,264,528	174,930
Transfers to other funds	(75,000)	(75,000)	-	(75,000)	-	(225,000)	-
Receipts from miscellaneous revenues	17,705	3,211	3,310	7,917	585,907	618,049	15,408
Net cash provided (used) by noncapital financing activities	1,552,234	1,433,211	3,310	(67,083)	735,907	3,657,577	190,338
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Principal paid on capital debt	(51,344)	(4,729,095)	-	(58,585)	(188,329)	(5,027,353)	1,644
Interest paid on capital debt	(1,169)	(2,344,063)	-	(1,465)	(17,193)	(2,363,889)	(157)
Purchases of capital assets	(159,302)	(66)	-	(18,732)	(976,888)	(1,154,988)	(432,726)
Capital grants and contributions	-	15,000	-	45,040	362,490	422,530	(93,515)
Net cash provided (used) by capital and related financing activities	(211,815)	(7,058,223)	-	(33,741)	(819,920)	(8,123,699)	(524,755)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sale and maturity of investments	986,823	747,323	-	192,783	-	1,926,929	675,941
Purchase of investments	(11,466,177)	(8,422,433)	-	(2,133,183)	-	(22,021,793)	(7,871,022)
Interest and dividends received	(124,421)	(75,083)	39,661	(15,696)	20,076	(155,463)	(143,359)
Net cash provided (used) by investing activities	(10,603,775)	(7,750,193)	39,661	(1,956,096)	20,076	(20,350,327)	(7,338,440)
Net increase (decrease) in cash and cash equivalents	(7,813,892)	(5,352,531)	404,643	(1,738,692)	177,666	(14,322,806)	(6,737,327)
Balances - beginning of year	11,971,621	10,026,429	2,362,578	2,731,930	2,532,557	29,625,114	10,992,565
Balances - end of year	4,157,729	4,673,898	2,767,221	993,238	2,710,224	15,302,309	3,655,238
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating Income	\$ 754,443	\$ 4,527,283	\$ 393,673	\$ 135,288	\$ 112,095	\$ 5,922,782	\$ 200,076
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	1,042,682	3,557,704	1,429	213,371	152,575	4,967,763	923,110
Asset Retirement Obligation	3,463	-	-	-	16,133	19,596	-
Capital Contributions	40,387	-	-	45,040	-	85,427	-
Changes in assets and liabilities:							
Other operating receivables	-	(43,703)	-	-	-	(43,703)	-
Change in accounts receivable	52,464	82,342	10,636	12,560	(9,170)	148,832	-
Change in due from other governments	-	-	-	-	5,793	5,793	-
Change in inventories	-	-	-	-	2,759	2,759	-
Change in deferred outflows	(69,963)	(149,331)	(106,223)	(50,892)	(69,867)	(446,276)	(246,863)
Change in accounts payable	(404,123)	8,829	(31,919)	(8,567)	1,095	(434,686)	92,745
Change in deposits	43,081	6,318	49,620	(60)	5,492	104,451	528
Change in wages payable	529	-	-	-	(492)	37	-
Change in compensated absences	3,491	(25,173)	7,936	6,435	1,041	(6,270)	(41,374)
Change in pension obligations	218,270	371,276	322,147	256,159	212,579	1,380,430	621,007
Change in deferred inflows	(194,873)	(313,725)	(285,627)	(245,360)	(188,429)	(1,228,014)	(529,617)
Change in prepaids	-	855	-	(705)	-	150	(81,917)
Net cash provided (used) by operating activities	\$ 1,489,851	\$ 8,022,675	\$ 361,673	\$ 363,268	\$ 241,604	\$ 10,479,071	\$ 935,530
<b>CASH RECONCILIATION</b>							
Actual Balance - end of year	\$ 4,157,729	\$ 4,673,898	\$ 2,767,221	\$ 993,238	\$ 2,710,224	\$ 15,302,309	\$ 3,655,238
Balance - end of year out of balance	-	-	-	-	-	-	-

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

## Notes to the Basic Financial Statements

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

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

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

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

The City's Annual Financial Report includes all funds and organizations that are controlled by or dependent on the City. Control by the City was determined on the basis of financial accountability, budget adoption, taxing authority, and resource allocation criteria. Dependence on the City was determined by the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria, as outlined in GASB 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.

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.

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.

## **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.

## **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 for the two years of the biennial budget period and are 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 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**

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.

### **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, 2022, the City had \$32,159,857.21 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, 2022 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, 2022, the City had \$41,742,472 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:

<b>2022</b>	
Capital projects	\$ 87,428
Customer deposits	265,302
Debt service	257,000
<b>Total restricted cash</b>	<b>\$ 609,730</b>

**7. Capital Assets**

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

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

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:

<b>Asset</b>	<b>Years</b>
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). For the purposes of calculating restricted net position related to each individual pension plan's net pension asset: The restricted net position is equal to the net pension asset, minus the deferred inflows, plus the deferred outflows; this only applies to pension plans that have a net pension asset (deferred inflows and deferred outflows for the pension plans are only used for those that have a net pension asset).

#### **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 yearend; 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	Other Governmental Funds	Total
<b>Fund Balances:</b>			
<b>Unspendable for:</b>			
Prepays	127,755		\$ 127,755
<b>Restricted for:</b>			
Drug Seizure Program	10,806		10,806
Public Safety	45,045		45,045
Street Surface Improvements		3,243,280	3,243,280
Arterial Traffic Improvements		869,111	869,111
Transportation Capital Improvements		1,023,010	1,023,010
Transportation Benefit District Improvements		1,356,270	1,356,270
Paths And Trails Improvements		10,179	10,179
Tourism Promotion		825,230	825,230
Park Improvement Programs	907,704	336,632	1,244,336
Capital Facilities Plan	10,000	3,648,755	3,658,755
Senior Services Program		40,000	40,000
<b>Committed to:</b>			
Park Improvement Programs	160,138		160,138
Community Art		242,339	242,339
Senior Services Program		450,684	450,684
Flintstone Park Capital Project		14,221	14,221
Windjammer Park		230,663	230,663
Stabilization Arrangement	1,749,638		1,749,638
<b>Assigned to:</b>			
Street Surface Improvements			-
Office Operations	2,350		2,350
Council Specified Expenditures	984,850		984,850
<b>Unassigned:</b>			
General Fund Unassigned	12,118,524		12,118,524
Whidbey Marathon Operating Funds	(90,242)		(90,242)
<b>Total Fund Balances</b>	<b>\$ 16,026,568</b>	<b>\$ 12,290,376</b>	<b>\$ 28,316,944</b>

Note: Totals may not foot due to rounding.

**F. General Fund Stabilization Arrangement**

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

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, 2022, the cash balance for the Stabilization arrangement is \$1,749,638.

### **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, 2022:

Cash Reconciliation	Amount
<b>Account Statements</b>	
Bank balances	\$ 17,322,860
Washington State Local Gov. Inv. Pool	23,804,139
<b>Total</b>	<b>\$ 41,126,999</b>
<b>Financial Statements</b>	
Cash and cash equivalents	\$ 40,274,473
Outstanding bank items	855,476
Cash on hand	(2,950)
<b>Total</b>	<b>\$ 41,126,999</b>

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. The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

As of December 31, 2022 the City held the following investments at fair value:

Investments	Valuation Method	Fair Value	Maturity		
			Under 1 Year	1 - 2 Years	Over 2 Years
Federal Farm Credit	Level 2	\$ 5,668,064	\$ 1,930,994	\$ 3,737,070	
Fannie Mae	Level 2	\$ 1,974,502	\$ 1,974,502		
Freddie Mac	Level 2	\$ 4,845,742	\$ 4,845,742		
Federal Home Loan Bank	Level 2	15,552,760	11,840,670	3,712,090	
US Treasury	Level 2	13,701,404	9,941,560	3,759,844	
<b>Total investments by fair value</b>		<b>\$ 41,742,472</b>	<b>\$ 30,533,468</b>	<b>\$ 11,209,004</b>	<b>\$ -</b>

Note: Totals may not foot due to rounding.

**Custodial Credit Risk.** Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City of Oak Harbor would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's Investment Policy requires that all security transactions entered into by the City of Oak Harbor 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, 2022 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 14 days and a WAL of 106 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.

<b>Property Tax Calendar</b>	
January 1	Taxes are levied and become an enforceable lien against properties.
February 28	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 \$3.2085 - 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 2022 was \$1.823040 per \$1,000 on an assessed valuation of \$2,526,249,219 for a regular levy of \$4,605,453.

Actions taken in 2022 that will affect 2023 taxes:

The City of Oak Harbor adopted Resolution 22-17 on July 12, 2022, submitting Proposition 1, Fire Protection Property Tax Levy Lid Lift, to the voters on the 2022 General Election for fire protection response time improvements, including the addition of firefighters, equipment, and associated costs. Proposition 1 passed on November 8, 2022, with 61.23% of the voters voting in favor (50%, plus one threshold required).

The City of Oak Harbor adopted Resolution 22-18 on July 12, 2022, submitting Proposition 2, General Obligation Bonds for Fire Station and Equipment, to the voters for acquisition of property, construction and equipping a second fire station and acquisition of a new ladder truck. Proposition 2 was passed on November 8, 2022, with 62.60% voter approval (60% supermajority threshold required).

**Note 5 – Capital Assets and Depreciation**

Governmental-type capital assets activity for the year ended December 31, 2022 was as follows:

Governmental Activities:	Beginning Balance 1/1/2022	Increases	Decreases	Ending Balance 12/31/2022
<b>Capital assets not being depreciated:</b>				
Land	12,092,799	-	-	12,092,799
Construction in progress	1,034,218	1,200,484	(1,117,384)	1,117,319
Intangible assets	50,000	-	-	50,000
<b>Total capital assets not depreciated:</b>	<b>13,177,017</b>	<b>1,200,484</b>	<b>(1,117,384)</b>	<b>13,260,118</b>
<b>Assets depreciated:</b>				
Buildings	11,290,647	-	-	11,290,647
Capital lease	-	-	-	-
Improvements & infrastructure	50,686,876	1,129,327	-	51,816,203
Machinery & equipment	15,769,713	1,104,815	-	16,874,528
Right-to-use Machinery & equipment	46,743	-	-	46,743
<b>Total capital assets depreciated:</b>	<b>77,793,978</b>	<b>2,234,142</b>	<b>-</b>	<b>80,028,120</b>
<b>Less accumulated depreciation:</b>				
Buildings	(6,607,197)	(229,450)	-	(6,836,647)
Capital lease	-	-	-	-
Improvements & infrastructure	(29,726,699)	(1,203,105)	-	(30,929,803)
Machinery & equipment	(10,464,787)	(988,083)	-	(11,452,870)
Right -to-use Machinery & equipment	-	(16,764)	-	(16,764)
<b>Total accumulated depreciation:</b>	<b>(46,798,683)</b>	<b>(2,437,401)</b>	<b>-</b>	<b>(49,236,085)</b>
<b>Total capital assets depreciated (net):</b>	<b>30,995,295</b>	<b>(203,259)</b>	<b>-</b>	<b>30,792,036</b>
<b>Governmental activities total capital assets (net):</b>	<b>44,172,312</b>	<b>997,225</b>	<b>(1,117,384)</b>	<b>44,052,154</b>

Note: Totals may not foot due to rounding.

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

<b>Governmental Activities:</b>	
General governmental	\$ 39,223
Public safety	100,862
Transportation	796,290
Natural & economic environment	7,896
Social Services	21,689
Cultural and recreational	548,331
Internal service	923,110
<b>Total depreciation expense - governmental activities</b>	<b>\$ 2,437,401</b>

Note: Totals may not foot due to rounding.

Business-type capital assets activity for the year ended December 31, 2022 was as follows:

Business-type Activities:	Beginning Balance			Ending Balance
	1/1/2022	Increases	Decreases	
<b>Capital assets not being depreciated:</b>				
Land	5,394,966	-	-	5,394,966
Right-to-use Land	187,960	-	-	187,960
Construction in progress	373,040	1,002,737	(1,101,958)	273,820
<b>Total capital assets not depreciated:</b>	<b>5,955,966</b>	<b>1,002,737</b>	<b>(1,101,958)</b>	<b>5,856,746</b>
<b>Capital assets being depreciated:</b>				
Buildings	143,380,140	-	-	143,380,140
Improvements	75,799,634	950,497	-	76,750,131
Machinery & equipment	5,242,016	189,034	-	5,431,050
<b>Total capital assets depreciated:</b>	<b>224,421,790</b>	<b>1,139,531</b>	<b>-</b>	<b>225,561,321</b>
<b>Less accumulated depreciation:</b>				
Buildings	(11,669,172)	(2,878,249)	-	(14,547,421)
Improvements	(39,749,752)	(1,891,728)	-	(41,641,480)
Machinery & equipment	(4,049,548)	(197,785)	-	(4,247,333)
<b>Total accumulated depreciation:</b>	<b>(55,468,472)</b>	<b>(4,967,763)</b>	<b>-</b>	<b>(60,436,235)</b>
<b>Total capital assets depreciated (net):</b>	<b>168,953,318</b>	<b>(3,828,232)</b>	<b>-</b>	<b>165,125,087</b>
<b>Business-type activities</b>				
<b>total capital assets (net):</b>	<b>174,909,284</b>	<b>(2,825,495)</b>	<b>(1,101,958)</b>	<b>170,981,832</b>

Note: Totals may not foot due to rounding.

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

<b>Business-type Activities:</b>	
Water	\$ 1,042,682
Sewer	3,557,704
Solid waste	1,429
Storm drain	213,371
Marina	152,575
<b>Total depreciation expense - business-type activities</b>	<b>\$ 4,967,763</b>

Note: Totals may not foot due to rounding.

The City has the following active construction projects as of December 31, 2022:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Wastewater Treatment Plant	\$ 140,163,770	\$ 782,352
City Well #9 Replacement	9,460	45,768
Fakkema/Boyer Access Road	48,094	30,229
2020 F Dock Storm Repair	438,244	30,754
Marina Improvements/Upgrades	423,197	86,966
Harbor Heights Improvements	190,869	28,196
Active Transportation Plan	3,351	146,649
NE 7th Ave Improvement	302,993	214,282
Campbell Lake Road Water Main	18,735	38,965
AC Water Mains	140,472	135,088
Portland Loos	95,784	12,126
WJP-Lagoon dock	43,450	32,136
Slip Line replacments	7,945	15,355
Windjammer Park Phase 1	12,224,565	123,911
<b>Total</b>	<b>\$ 154,110,928</b>	<b>\$ 1,722,778</b>

Note: Totals may not foot due to rounding.

**Note 6 – Asset Retirement Obligations**

For fiscal year 2022, 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 2022. 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 \$124,120 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, 2022, inflation was assessed at 6.5% based on the CPI data for 2022 and the current value of the ARO has been adjusted to reflect this increase.

The following table represents the City's ARO for 2022:

ARO	Remaining Useful Life	Beginning Balance			Ending Balance
		1/1/2022	Additions	Reductions	
Well 8	4 years	\$ 10,850	\$ 705	\$ -	\$ 11,555
Well 9	3 years	\$ 10,850	\$ 705	\$ -	\$ 11,555
Well 11	5 years	\$ 10,850	\$ 705	\$ -	\$ 11,555
Timber Barges	5.42 years	\$ 124,120	\$ 8,068	\$ -	\$ 132,188
<b>Total</b>		<b>\$ 156,669</b>	<b>\$ 10,184</b>	<b>\$ -</b>	<b>\$ 166,853</b>

**Note 7 – Pension Plans**

The following table represents the aggregate pension amounts for all plans for the year 2022:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$1,285,904)
Pension assets	5,162,985
Deferred outflows of resources	3,748,841
Deferred inflows of resources	(3,506,851)
Pension expense/expenditures	219,229

**State Sponsored Pension Plans**

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The 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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

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

**Public Employees’ Retirement System (PERS)**

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement

from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

**Contributions**

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS 1

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.25%</b>	<b>6.00%</b>
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.39%</b>	<b>6.00%</b>

\* For employees participating in JBM, the contribution rate was 12.26%

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

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

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

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

**Contributions**

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS 2/3

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January – August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>10.25%</b>	<b>6.36%</b>
September – December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>10.39%</b>	<b>6.36%</b>

\* For employees participating in JBM, the contribution rate was 15.90%.

The City’s actual PERS plan contributions were \$291,748 to PERS Plan 1 and \$469,256 to PERS Plan 2/3 for the year ended December 31, 2022.

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

**Contributions**

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18%. 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 2022 were as follows:

PSERS 2		
Actual Contribution Rates:	Employer	Employee
January – August 2022		
PSERS Plan 2	6.50%	6.50%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.39%</b>	<b>6.50%</b>
September – December 2022		
PSERS Plan 2	6.60%	6.60%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.63%</b>	<b>6.60%</b>

The City's actual plan contributions were \$8,910 to PSERS Plan 2 and \$9,401 to PERS Plan 1 for the year ended December 31, 2022.

### **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 zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2010. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

#### **Contributions**

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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 3.41% in 2022.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

LEOFF 2

<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – August 2022		
State and local governments	5.12%	8.53%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.30%</b>	<b>8.53%</b>
September – December 2022		
State and local governments	8.53%	8.53%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.71%</b>	<b>8.53%</b>

The City’s actual contributions to the plan were \$209,057 for the year ended December 31, 2022.

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, 2022, the state contributed \$81,388,085 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,696,033.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2013-2018 *Demographic Experience Study and the 2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payment.

- Inflation: 2.75% total economic inflation; 3.25% salary inflation
- Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.00%

Mortality rates were developed using the Society of Actuaries’ Pub. H-2010 mortality rates, which vary by member status, as the base table. 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 of 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 their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA’s biennial economic experience study.

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

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 7.0% 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 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) 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**

The table below summarizes the 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, 2022. The inflation component used to create the table is 2.2% and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	1.50%
Tangible Assets	7.00%	4.70%
Real Estate	18.00%	5.40%
Global Equity	32.00%	5.90%
Private Equity	23.00%	8.90%
	<b>100.00%</b>	

**Sensitivity of the Net Pension Liability/(Asset)**

The table below presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate.

Plan	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS 1	\$1,717,950	\$1,285,904	\$908,829
PERS 2/3	2,488,164	(2,112,855)	(5,892,884)
PSERS 2	39,827	(16,721)	(61,349)
LEOFF 1	(285,676)	(325,989)	(360,947)
LEOFF 2	(120,567)	(2,618,230)	(4,662,354)

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

At June 30, 2022, the City reported its proportionate share of the net pension liabilities as follows:

Liability (Asset)	
PERS 1	\$1,285,904
PERS 2/3	(2,112,855)
PSERS 2	(16,721)
LEOFF 1	(325,989)
LEOFF 2	(2,618,230)

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	\$325,989	\$2,618,230
State’s proportionate share of the net pension asset associated with the employer	2,204,983	1,696,033
<b>Total</b>	<b>\$2,530,972</b>	<b>\$4,314,263</b>

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

Plan	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.047861%	0.046183%	-0.001678%
PERS 2/3	0.058195%	0.056969%	-0.001226%
PSERS 2	0.052799%	0.023386%	-0.029413%
LEOFF 1	0.011060%	0.011364%	0.000304%
LEOFF 2	0.101688%	0.096340%	-0.005348%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 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 2022. 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 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2022, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 61 percent of employer contributions.

**Pension Expense**

For the year ended December 31, 2022, the City recognized pension expense as follows:

Pension Expense	
PERS 1	546,206
PERS 2/3	(733,499)
PSERS 2	5,128
LEOFF 1	(22,185)
LEOFF 2	461,262
Total	256,912

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

At December 31, 2022, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(213,112)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	148,395	-
<b>Total</b>	<b>\$ 148,395</b>	<b>\$ (213,112)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 523,516	\$ (47,830)
Net difference between projected and actual investment earnings on pension plan investments	-	(1,562,050)
Changes of assumptions	1,177,625	(308,344)
Changes in proportion and differences between contributions and proportionate share of contributions	13,712	(109,322)
Contributions subsequent to the measurement date	235,755	-
<b>Total</b>	<b>\$ 1,950,609</b>	<b>\$ (2,027,546)</b>

<b>PSERS 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 8,686	\$ (184)
Net difference between projected and actual investment earnings on pension plan investments	-	(11,726)
Changes of assumptions	12,275	(4,904)
Changes in proportion and differences between contributions and proportionate share of contributions	17,846	(5,224)
Contributions subsequent to the measurement date	4,479	-
<b>Total</b>	<b>\$ 43,286</b>	<b>\$ (22,039)</b>

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	-	(40,704)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ (40,704)</b>

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 622,135	\$ (24,293)
Net difference between projected and actual investment earnings on pension plan investments	-	(876,684)
Changes of assumptions	663,272	(227,976)
Changes in proportion and differences between contributions and proportionate share of contributions	214,261	(74,498)
Contributions subsequent to the measurement date	106,884	-
<b>Total</b>	<b>\$ 1,606,552</b>	<b>\$ (1,203,451)</b>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. 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
2022	(\$90,185)	(\$517,006)	(\$2,729)	(\$17,239)	(\$256,763)
2023	(81,911)	(455,802)	(2,241)	(15,609)	(220,097)
2024	(102,755)	(538,122)	(3,234)	(19,517)	(299,058)
2025	61,738	702,992	6,761	11,662	396,730
2026	-	245,679	2,571	-	123,552
Thereafter	-	249,568	15,642	-	551,852

**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 362 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 percent 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 annual comprehensive financial report (ACFR) of the State of Washington. The State ACFR may be downloaded from the Office of Financial Management (OFM) website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

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

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

**Contributions**

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the OSA. 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 2022 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 \$600 for the year ended December 31, 2022. The City has opted to pay members' fees on their behalf. Contributions on behalf of members were \$600 for the year ended December 31, 2022.

In accordance with Chapter 41.24 RCW, the state contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2022, the state's fire insurance premium tax contribution was \$6.7 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, 2021, and rolled forward to June 30, 2022, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation: 2.25%
- Salary increases: N/A
- Investment rate of return: 6.0%

The actuarial assumptions used in the valuation were based on the results of the OSA's *2021 Report on Financial Condition and Economic Experience Study*, the *2021 Pension Experience Study*, and the *2018 Relief Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2021 valuation report.

Mortality assumptions used for this plan are consistent with assumptions used for Public Employees' Retirement System. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

**Discount Rate**

The discount rate used to measure the total VFFRPF pension liability was 6 percent. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 6 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Based on OSA's assumptions the pension plan's 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 6 percent on plan investments was applied to determine the total pension liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the VFFRPF pension plan investments of 6 percent 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, 2021, are summarized in the table below. The inflation component used to create the table is 2.25% and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20.00%	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%
	<b>100.00%</b>	

**Sensitivity of the Net Pension Asset**

The following presents the City's proportionate share of the VFFRPF net pension asset calculated using the discount rate of 6 percent, as well as what the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (5 percent) or 1-percentage point higher (7 percent) than the current rate.

	<b>1% Decrease (5.0%)</b>	<b>Current Discount Rate (6.0%)</b>	<b>1% Increase (7.0%)</b>
VFFRPF	\$190,524	\$89,189	\$6,352

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

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

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

At June 30, 2022, the City reported an asset of \$89,189 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, 2022, the City's proportion was 0.315557%.

The VFFRPF collective net pension asset was measured as of June 30, 2022, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

For the year ended December 31, 2022, the City recognized pension expense of (\$37,683). 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 2022.

**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 of Oak Harbor has outstanding loans from direct borrowings related to governmental activities totaling \$164,422. The City of Oak Harbor has outstanding general obligation bonds, revenue bonds and loans from direct borrowings related to business-type activities totaling \$1,070,600, \$25,720,000, and \$86,372,949, 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
2021 OAKLTGO21 Refunding of 2011 Marina improvements Bond	2025	0.89%	\$1,522,200	\$1,070,600

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
2023	-	-	353,700	9,528
2024	-	-	356,900	6,380
2025	-	-	360,000	3,204
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,070,600</b>	<b>\$19,113</b>

At December 31, 2022, the City has assigned assets in proprietary funds containing \$257,000 in reserves.

**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
2023	0	855,191
2024	0	855,191
2025	0	855,191
2026	0	855,191
2027	0	855,191
2028-2032	0	4,275,956
2033-2037	1,205,000	4,275,956
2038-2042	12,750,000	3,178,590
2043-2046	11,765,000	971,263
<b>Total</b>	<b>\$25,720,000</b>	<b>\$16,977,721</b>

**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 \$182,396 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 \$527,263 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	\$68,943
PW-06-962-031 Water transmission line	2026	0.50%	\$538,900	\$113,453
PW-12-951-048 42" Storm drain outfall	2031	0.25%	\$985,584	\$527,263

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
2023	109,929	2,230
2024	109,929	1,827
2025	109,929	1,424
2026	86,948	1,021
2027	58,585	732
2028-2031	234,339	1,465
<b>Total</b>	<b>\$709,659</b>	<b>\$8,698</b>

**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 \$2,034,187, while the remaining loans for the construction of the Clean Water Facility had an outstanding balance of \$84,338,762. 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	\$2,034,187
WQC-2015 OakHar-00021 Clean Water Facility	2037	2.70%	\$8,699,275	\$7,162,359
WQC-2016 OakHar-00240 Clean Water Facility	2038	1.90%	\$16,621,795	\$13,983,872
WQC-2017 OakHar-00081 Clean Water Facility	2038	1.60%	\$46,085,262	\$38,628,202
WQC-2018 OakHar-00112 Clean Water Facility	2038	1.20%	\$29,455,620	\$24,564,329

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
2023	4,805,673	1,412,294
2024	4,885,520	1,332,446
2025	4,966,788	1,251,178
2026	5,049,504	1,168,463
2027	5,133,694	1,084,272
2028-2032	26,984,980	4,104,851
2033-2037	29,151,216	1,762,982
2038	5,395,574	62,259
<b>Total</b>	<b>\$86,372,949</b>	<b>\$12,178,743</b>

**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	\$164,422

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
2023	53,062	3,589
2024	54,322	2,926
2025	57,038	1,499
<b>Total</b>	<b>\$164,422</b>	<b>\$8,014</b>

**Lines of Credit**

The City has no unused lines of credit.

**Note 10 – Leases**

**A. Lessee Lease**

In 2022 the financial statements include adoption of GASB Statement No. 87 – Leases. Under this statement the lessee recognizes lease liability and an intangible right-to-use the leased asset and the lessor recognizes a lease receivable and a deferred inflow of resources. As the interest rates implicit in

the City's leases are not readily determinable, the City utilizes its incremental borrowing rate to discount the lease payments.

Governmental Activities

On January 1, 2022, the City had five existing copier leases. The City also had an existing Mail Machine. All of these leases were initially for 5 year terms with no intention of extending. The City is utilizing the Office of the State Treasurer-LOCAL Program Rates as of 10/27/2022 to establish our incremental borrowing rates of 3.52%.

<b>Lease Assets by Major Classes of Underlying Asset:</b>				
	<b>Beginning Balance</b>			<b>Ending Balance</b>
<b>Governmental Activities:</b>	<b>1/1/2022</b>	<b>Increases</b>	<b>Decreases</b>	<b>12/31/2022</b>
<b>Assets depreciated:</b>				
Right-to-use Machinery & equipment	46,743	-	-	46,743
<b>Total capital assets depreciated:</b>	<b>46,743</b>	<b>-</b>	<b>-</b>	<b>46,743</b>
<b>Less accumulated depreciation:</b>				
Right-to-use Machinery & equipment	-	(16,764)	-	(16,764)
<b>Total accumulated depreciation:</b>	<b>-</b>	<b>(16,764)</b>	<b>-</b>	<b>(16,764)</b>
<b>Total capital assets depreciated (net):</b>	<b>46,743</b>	<b>(16,764)</b>	<b>-</b>	<b>29,979</b>
<b>Governmental activities</b>				
<b>total capital assets (net):</b>	<b>46,743</b>	<b>(16,764)</b>	<b>-</b>	<b>29,979</b>

Copier Leases descriptions and terms-Governmental Activities:

Purpose	Maturity Range	Interest Rate	Months remaining	Monthly payment	Payments Remaining	Amount of Installments
PW Copier Lease A #1143 6TB442391 C8070H2 existing	2023	3.52%	3	\$550.00	\$1,650	\$1,644
City Hall Utilities Copier Lease B #1144 Y4X930467 B8055H new	2025	3.52%	34	\$136.53	\$4,642	\$4,510
City Hall Mailroom Copier Lease C #1145 EFQ648546 C8170/H2 existing	2026	3.52%	43	\$176.36	\$7,583	\$7,126
Fire Dept Copier Lease D #1146 EHQ224286 C8145 existing	2026	3.52%	42	\$159.45	\$6,697	\$6,302
Planning Dept Copier Lease F #1147 EQF- 646127 C8170H existing	2025	3.52%	33	\$176.36	\$5,820	\$5,547

Copier Leases Principal and Interest Requirements to Maturity -Governmental Activities:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<b>December 31,</b>		
2023	9,575	723
2024	7,350	460
2025	6,013	189
2026	2,191	25
<b>Total</b>	<b>\$25,129</b>	<b>\$1,397</b>

Mail Machine Lease description and terms-Governmental Activities:

Purpose	Maturity Range	Interest Rate	Payments remaining	Quarterly payment	Payments Remaining	Amount of Installments
City Hall Mail machine I #1148	2024	3.52%	8	\$796.71	\$6,374	\$6,163

Mail Machine Leases Principal and Interest Requirements to Maturity -Governmental Activities:

Year Ending December 31,	Principal	Interest
2023	3,009	178
2024	3,154	70
<b>Total</b>	<b>\$6,163</b>	<b>\$248</b>

A. Business-type Activities

On January 1, 2022, the City had an existing right-to-use lease for DNR-Tidelands at our Marina. This lease was originally a 10 year lease that began in June 2019. The City is utilizing the Office of the State Treasurer-LOCAL Program Rates as of 10/27/2022 to establish our incremental borrowing rates of 3.68%.

Business-type Activities:	Beginning Balance			Ending Balance
	1/1/2022	Increases	Decreases	12/31/2022
<b>Capital assets not being depreciated:</b>				
Right-to-use Land	187,960	-	-	187,960
<b>Total capital assets not depreciated:</b>	<b>187,960</b>	<b>-</b>	<b>-</b>	<b>187,960</b>
<b>Business-type activities total capital assets (net):</b>	<b>187,960</b>	<b>-</b>	<b>-</b>	<b>187,960</b>

DNR Tidewater Land Lease description and terms-Business Activities:

Purpose	Maturity Range	Interest Rate	Years remaining	Yearly payment	Payments Remaining	Amount of Installments
DNR Tidewater lease J #1149	2028	3.68%	6	\$30,300	\$183,993	\$162,271

DNR Tidewater Land Lease Principal and Interest Requirements to Maturity -Business Activities:

<b>Year Ending</b>			
	<b>December 31,</b>	<b>Principal</b>	<b>Interest</b>
2023		24,329	5,972
2024		25,224	5,076
2025		26,152	4,148
2026		27,115	3,186
2027		28,112	2,188
2028		31,339	1,153
<b>Total</b>		<b>\$162,270</b>	<b>\$21,723</b>

B. Lessor Lease

The City has determined there are no leases qualifying to be reported as Lessor leases due to GASB 87. Our Marina leases slips for 12 months with no option to extend. Therefore, the City is classifying these leases as Short term.

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

During the year ended December 31, 2022, the following changes occurred in long-term liabilities (inclusive of both portions due within one year and due in more than one year):

	Beginning Balance 1/1/2022	Additions	Reductions	Ending Balance 12/31/2022	Due Within One Year
<b>Governmental Activities:</b>					
Debt from direct borrowings and direct payments:					
LOCAL COP	\$ 214,957	\$ -	\$ (50,535)	\$ 164,422	\$ 53,062
Premium	11,303	-	(4,339)	6,965	-
OPEB liability	3,035,616	(337,157)	(110,758)	2,587,701	115,409
Pension obligation	410,592	495,744	-	906,337	-
Lease Liabilities	46,266	-	(14,974)	31,292	12,584
Compensated absences	1,388,484	1,477	-	1,389,961	162,979
<b>Government activity</b>	<b>\$ 5,107,218</b>	<b>\$ 160,065</b>	<b>\$ (180,606)</b>	<b>\$ 5,086,677</b>	<b>\$ 344,034</b>
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 1,421,200	\$ -	\$ (350,600)	\$ 1,070,600	\$ 353,700
Revenue bonds	\$ 25,720,000	\$ -	\$ -	\$ 25,720,000	-
Premium	\$ 46,909	\$ -	\$ (1,876)	\$ 45,033	-
Discount	\$ 0	\$ -	\$ -	\$ 0	-
Total bonds payable:	27,188,109	-	(352,476)	26,835,633	353,700
Debt from direct borrowings and direct payments:					
PWTF loans	819,588	-	(109,929)	709,659	109,929
SRF loans	91,100,167	-	(4,727,218)	86,372,949	4,805,673
Asset retirement obligation	156,669	10,184	-	166,853	11,555
Pension obligation	173,902	205,665	-	379,567	-
Lease Liabilities	187,960	-	(25,689)	162,271	24,329
Compensated absences	372,345	-	(6,270)	366,075	44,056
<b>Business-type activity</b>	<b>\$ 119,998,741</b>	<b>\$ 215,848</b>	<b>\$ (5,221,583)</b>	<b>\$ 114,993,007</b>	<b>\$ 5,349,242</b>

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 \$18,140,142 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, 2022.

**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, 2022 were as follows:

<b>Fund</b>	<b>Transfer In</b>	<b>Transfer Out</b>
General	\$ 1,150,000	\$ (4,176,019)
Nonmajor governmental	1,916,260	(2,104,698)
Marina	150,000	-
Water	1,609,528	(75,000)
Sewer	1,505,000	(75,000)
Solid Waste	-	-
Storm drain	-	(75,000)
Internal Service	174,930	-
<b>Total</b>	<b>\$ 6,505,718</b>	<b>\$ (6,505,718)</b>

**Note 15 – Receivable and Payables Balances**

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

<b>Receivables:</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Property taxes	\$ 90,915	\$ -	\$ 90,915
Municipal court	572,108	-	572,108
Customer accounts	520	3,015,655	3,016,175
Opioid Settlement	20,619	-	20,619
Other accounts	265,037	3,382	268,419
Deposits	-	-	-
Other taxes	1,571,484	-	1,571,484
Grants	19,615	16,286	35,900
Gross receivables	2,540,297	3,035,322	5,575,619
Less: allowance for uncollectible	(504,027)	-	(504,027)
Long Term Receivable- Opioid Settlement	449,041	-	449,041
<b>Net total receivables</b>	<b>\$ 2,485,312</b>	<b>\$ 3,035,322</b>	<b>\$ 5,520,634</b>

Note: Totals may not foot due to rounding.

Detail of "Other current liabilities" are as follows:

<b>Payables</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Custodial accounts	96,443	14,330	110,773
Retainage	51,782		51,782
Security deposits	14,745	265,302	280,047
<b>Total payables</b>	<b>\$ 162,970</b>	<b>\$ 279,632</b>	<b>\$ 442,601</b>

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 2022:

<b>Aggregate OPEB Amounts</b>	
OPEB liabilities	(\$2,587,701)
OPEB assets	-
Deferred outflows of resources	\$57,705
Deferred inflows of resources	-
OPEB expense/expenditures	(\$337,157)

**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 \$76,107.13 for the year ended December 31, 2022.

At December 31, 2022, 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
<b>Total</b>	<b>5</b>

**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 2020 LEOFF 1 OPEB Actuarial Valuation Report.

The Tool uses the following assumptions:

<b>Methodology</b>	
Actuarial valuation date	6/30/2022
Actuarial measurement date	6/30/2022
Actuarial cost method	Entry age
Amortization method	Recognized immediately
Asset valuation method	N/A
<b>Assumptions</b>	
Discount Rate <sup>(1)</sup>	
Beginning of measurement year	2.16%
End of measurement year	3.54%
Healthcare trend rates <sup>(2)</sup>	
Medical costs	Approximately 5.0%, varies by year
Long-term care	4.5%
Medicare Part B premiums	Approximately 5.5%, varies by year.
Mortality rates (assume 100% male population)	
Base mortality table	PUBS.H-2010 (Public Safety) Blended 50%/50% Healthy/Disabled
Age setback	-1 year Healthy / 0 years Disabled
Mortality improvements	MP-2017 Long-term Rates
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 *2020 LEOFF 1 OPEB Actuarial Valuation Report*

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 5.0%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.0%) or 1-percentage point higher (6.0%) that the current rate.

	1% Decrease (4.0%)	Current Healthcare Cost Trend Rate (5.0%)	1% Increase (6.0%)
Total OPEB liability	(\$2,336,270)	(\$2,587,701)	(\$2,877,506)

The following presents the total OPEB liability of the City calculated using the discount rate of 3.54%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.54%) or 1-percentage point higher (4.54%) that the current rate.

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability	(\$2,896,386)	(\$2,587,701)	(\$2,326,087)

**Changes in the Total OPEB Liability**

LEOFF 1	
Total OPEB liability at 1/1/2022	\$ 3,035,616
Service costs	-
Interest costs	64,380
Change in assumptions	(401,537)
Change in benefit terms	-
Estimated benefit payments	(110,758)
Other changes	-
<b>Total OPEB liability at 12/31/2022</b>	<b>\$ 2,587,701</b>

At December 31, 2022, 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	57,705	-
<b>Total</b>	<b>\$ 57,705</b>	<b>\$ -</b>

Deferred outflows of resources of \$57,705 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, 2022.

**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 2022.

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 2022.

## **Note 18 – Other Disclosures**

### **Accounting and Reporting Changes**

Effective in the annual financial statements for 2022, the City implemented the following statements of the Government Accounting Standards Board (GASB):

GASB 87, Certain Disclosures Related to Leases – the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principles that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This required the City to record right-to-use assets and lease liabilities for 5 existing copiers, one existing mail machine and an existing DNR Tidewater lease. No restatement of beginning net position was recorded. The amounts that would have been restated were not significant to the prior year's financial statements presented in the management discussion and analysis.

### **Subsequent Events**

The City of Oak Harbor adopted Resolution 22-17 on July 12, 2022, submitting Proposition 1, Fire Protection Property Tax Levy Lid Lift, to the voters on the 2022 General Election for fire protection response time improvements, including the addition of firefighters, equipment, and associated costs. Proposition 1 passed on November 8, 2022, with 61.23% of the voters voting in favor (50%, plus one threshold required). Proceeds from the levy lid lift started being received in 2023.

The City of Oak Harbor adopted Resolution 22-18 on July 12, 2022, submitting Proposition 2, General Obligation Bonds for Fire Station, and Equipment, to the voters for acquisition of property, construction and equipping a second fire station and acquisition of a new ladder truck. Proposition 2 was passed on November 8, 2022, with 62.60% voter approval (60% supermajority threshold required). Bond proceeds available to be used for the project were received in the amount of approximately \$9,200,000 on March 24, 2023.

**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)
<b>Schedule of Proportionate Share of Net Pension Liability - PERS 1 - As of June 30,</b>							
2022	0.046183%	(\$1,285,904)	NA	(\$1,285,904)	\$7,354,368	17.48%	76.56%
2021	0.047861%	(\$584,495)	NA	(\$584,495)	\$7,332,424	7.97%	88.74%
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%
<b>Schedule of Proportionate Share of Net Pension Liability - PERS 2/3 - As of June 30,</b>							
2022	0.056969%	\$2,112,855	NA	\$2,112,855	\$7,106,783	-29.73%	106.73%
2021	0.058195%	\$5,797,158	NA	\$5,797,158	\$6,960,384	-83.29%	120.29%
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%
<b>Schedule of Proportionate Share of Net Pension Liability - PSERS 2 - As of June 30,</b>							
2022	0.023386%	\$16,721	NA	\$16,721	\$157,777	10.60%	105.96%
2021	0.052799%	\$121,300	NA	\$121,300	\$357,915	33.89%	123.67%
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%
<b>Schedule of Proportionate Share of Net Pension Liability - LEOFF 1 - As of June 30,</b>							
2022	0.011364%	\$325,989	\$2,204,983	\$2,530,972	\$0	NA	169.62%
2021	0.011060%	\$378,867	\$2,562,648	\$2,941,515	\$0	NA	187.45%
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%
<b>Schedule of Proportionate Share of Net Pension Liability - LEOFF 2 - As of June 30,</b>							
2022	0.096340%	\$2,618,230	\$1,696,033	\$4,314,263	\$3,894,311	67.23%	116.09%
2021	0.101688%	\$5,906,460	\$3,810,311	\$9,716,771	\$3,936,115	150.06%	142.00%
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%
<b>Schedule of Proportionate Share of Net Pension Asset - VFFRPF - As of June 30,</b>							
2022	0.315557%	\$89,189	NA	\$89,189	\$0	NA	88.65%
2021	0.231339%	\$50,906	NA	\$50,906	\$0	NA	108.94%
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
<b>Schedule of Employer Contributions - PERS 1 - As of December 31,</b>					
2022	\$291,748	\$291,748	\$0	\$7,605,050	3.84%
2021	\$315,487	\$315,487	\$0	\$7,232,280	4.36%
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%
<b>Schedule of Employer Contributions - PERS 2/3 - As of December 31,</b>					
2022	\$469,256	\$469,256	\$0	\$7,375,757	6.36%
2021	\$494,574	\$494,574	\$0	\$6,915,184	7.15%
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%
<b>Schedule of Employer Contributions - PSERS 2 - As of December 31,</b>					
2022	\$8,910	\$8,910	\$0	\$136,377	6.53%
2021	\$17,778	\$17,778	\$0	\$254,938	6.97%
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%
<b>Schedule of Employer Contributions - LEOFF 1 - As of December 31,</b>					
2022	\$0	\$0	\$0	\$0	NA
2021	\$0	\$0	\$0	\$0	NA
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
<b>Schedule of Employer Contributions - LEOFF 2 - As of December 31,</b>					
2022	\$209,057	\$209,057	\$0	\$4,083,158	5.12%
2021	\$200,173	\$200,173	\$0	\$3,897,754	5.14%
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%
<b>Schedule of Employer Contributions - VFFRPF - As of December 31,</b>					
2022	\$600	\$600	\$0	\$0	NA
2021	\$450	\$450	\$0	\$0	NA
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**

<b>Schedule of Changes in Total OPEB Liability and Related Ratios</b>					
<b>LEOFF 1</b>					
<b>For the year ended December 31,</b>					
	2022	2021	2020	2019	2018
Total OPEB liability-beginning	\$3,035,616	\$2,888,050	\$2,466,542	\$2,637,199	\$2,723,278
Service costs			-	-	-
Interest costs	64,380	62,760	84,655	100,266	96,002
Change in assumptions	(401,537)	181,784	433,367	(177,317)	(98,022)
Change in benefit terms			-	-	-
Estimated benefit payments	(110,758)	(96,978)	(96,514)	(93,606)	(84,059)
Other changes			-	-	-
Total OPEB liability-ending	\$2,587,701	\$3,035,616	\$2,888,050	\$2,466,542	\$2,637,199
Covered-employee payroll		-	-	-	-
Total OPEB liability as a % of covered payroll	NA	NA	NA	NA	NA

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

## 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](http://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.

### Stay connected at [sao.wa.gov](http://sao.wa.gov)

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

### Other ways to stay in touch

- Main telephone:  
(564) 999-0950
- Toll-free Citizen Hotline:  
(866) 902-3900
- Email:  
[webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov)