Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Bellingham
Whatcom County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012262

Issue Date
July 24, 2014

Washington State Auditor
Troy Kelley
Independence • Respect • Integrity

Washington State Auditor
Troy Kelley

July 24, 2014

Mayor and City Council
City of Bellingham
Bellingham, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Whatcom County
January 1, 2013 through December 31, 2013

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Federal Summary

City of Bellingham
Whatcom County
January 1, 2013 through December 31, 2013

The results of our audit of the City of Bellingham are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.218	CDBG - Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
14.239	HOME Investment Partnerships Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Bellingham
Whatcom County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Bellingham
Bellingham, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Bellingham, Whatcom County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2014. As discussed in Note III to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

TROY KELLEY
STATE AUDITOR

June 25, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Bellingham
Whatcom County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Bellingham
Bellingham, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Bellingham, Whatcom County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR

June 25, 2014

Independent Auditor's Report on Financial Statements

City of Bellingham
Whatcom County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Bellingham
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Bellingham, Whatcom County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Bellingham, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note III to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 23, budgetary comparison information on pages 96 through 97, pension trust fund information on page 98 and information on postemployment benefits other than pensions on page 99 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

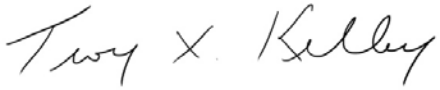
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial

statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

June 25, 2014

Financial Section

City of Bellingham
Whatcom County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

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Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position – 2013
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2013
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2013
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Statement of Cash Flows – Proprietary Funds – 2013
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REQUIRED SUPPLEMENTARY INFORMATION

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Pension Trust Fund Information – 2013
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Bellingham presents this discussion and analysis as part of the financial statements for the fiscal year ending December 31, 2013. The information presented should be read in conjunction with the financial statements and the notes to the financial statements.

Financial highlights

- The City's overall financial position improved slightly in 2013 as compared to 2012 as evidenced by increases in the change in net position. Government-wide net position increased by $28.8 million a 4.5% increase. Governmental activities provided $20.8 million of this increase and business-type $8 million.
- At December 31, 2013, the City's government-wide net position, the amount by which total assets exceed total liabilities, totaled $664.8 million. Of this amount, $544.3 million, or 82%, is the net investment in capital assets. Of the remaining net assets, $43.8 million is unrestricted and may be used to meet the City's ongoing obligations.
- The governmental funds ending balance increased $9.3 million from 2012, ending 2013 at $87.1 million. Of this amount, the use of $14.5 million is unassigned and available for spending at the City's discretion.
- In 2013, the City issued Water and Sewer Revenue bonds in the amount of $15,785,000. These bonds are tax exempt and the proceeds are being used to finance the costs of constructing improvements to the City's combined water supply and distribution system and sewage collection and disposal system, to fund the debt service reserve account and to pay the cost of issuance of the bonds. The bonds are financed by business-type activities and will mature in 2043.
- Total governmental activity revenues increased by $15 million, or 14%, from 2012. Program revenues increased by $9.2 million and tax and interest revenues increased by $5.8 million.
- The enterprise funds total net position increased $8 million from 2012, ending 2013 at $245.3 million. This increase in net position is comprised of an $8.8 million increase in change of net position offset by a $0.8 million change in accounting principle adjustment related to removing bond issue costs related to prior years as required by GASB 65.

Overview of the financial statements

This discussion and analysis serves as an introduction to the financial statements and is intended to assist users in interpretation of the basic financial statements. These basic statements consist of three parts:

- government-wide financial statements
- fund financial statements
- notes to the financial statements

Government-wide financial statements present the financial condition in a manner similar to private sector statements. They distinguish between functions that are primarily supported by tax revenue and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The two government-wide statements provide both short-term and long-term information about the overall financial status of the City. All funds are represented except fiduciary fund types.

- The **statement of net position** presents information on assets and liabilities similar to a private sector balance sheet. The difference between assets plus deferred outflows and liabilities plus deferred inflows becomes the "net" position.
- The **statement of activities** reports the change in net position for the report year. The accounting basis used is full accrual. Revenues are reported when earned, expenses are reported when incurred.

The government-wide financial statements also present information for the City's two discrete component units, the Bellingham-Whatcom Public Facility District (PFD) and the Bellingham Public Development Authority (BPDA). The operations of the PFD and the BPDA are legally separate from the City and governed by interlocal agreements between the City and these organizations. Discussion in the MD&A does not include the revenues, expenses, assets, deferred outflow, liabilities or deferred inflows of these discrete component units.

Fund financial statements provide detailed information about the City's most significant funds and are used to track specific sources of funding and spending. Major funds are separately reported while all others funds in the respective fund type are combined into a single, aggregated presentation. Individual fund data for non-major funds are provided in the form of combining statements in a later section of this report. There are three types of funds, described as follows:

Governmental funds represent most of the City's basic services such as police, fire, parks, a portion of public works and general administration. Governmental fund statements include balance sheets and statements of revenues, expenditures and changes in fund balance. Unlike the government-wide statements, these statements provide only a detailed short-term view of the financial resources available for spending. The accounting basis used is modified accrual and there are no capital assets or long-term debt included in these reports. Budgetary comparisons are included with the financial statements in the combining and individual fund statements section of the report and the required supplementary information section for the legally adopted general fund budget. These statements demonstrate compliance with the City's adopted and final revised budget.

Proprietary funds represent activities the City operates similar to private business wherein customers (either outside customers or internal funds or departments of the City) are charged fees for service. The City has both enterprise and internal service types of proprietary funds. The statements provide both long-term and short-term financial information. The accounting basis used is full accrual. The statements include all assets and liabilities and all revenues and expenses. Also included is cash flow information. Proprietary fund statements provide the same type of information as the government-wide financial statement, since both apply the full accrual method of accounting.

Enterprise funds account for the operations of five major funds: water, wastewater, surface and stormwater, solid waste and medic one, as well as four other funds that are aggregated into the non-major enterprise fund and eight internal service funds that are consolidated into the governmental activities - internal service funds column on the proprietary fund statements.

Internal service funds are used to report activities that provide supplies and services for many City programs. The internal service funds account for fleet administration, purchasing materials management, facilities administration, technology and telecom, claims and litigation, unemployment compensation, worker's compensation self-insurance, and health benefits. Given that these services benefit governmental operations more than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary funds are used to account for resources where the City acts as trustee or agent and is responsible for ensuring that the assets reported in these funds are used for their intended purpose such as police and firefighters pension funds. The accounting used for these funds is similar in nature to

proprietary fund reporting since it includes both short-term and long-term information and employs the full accrual method. Reports include a statement of net position and a statement of changes in plan net position. These funds are excluded from the government-wide financial statements because these assets cannot be used to finance City operations.

Notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents comparative budget statements for major governmental funds.

Government-wide financial analysis

Net position

The City's net position totals $664.8 million at December 31, 2013, an increase of 4.5% over December 31, 2012.

Net position *(in thousands)*

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current	$ 63,253	$ 60,172	$ 47,142	$ 37,201	$ 110,395	$ 97,373
Noncurrent	65,456	56,747	23,745	44,092	89,201	100,839
Capital assets (net of depr)	343,214	335,268	276,977	238,952	620,191	574,220
Total assets	471,923	452,187	347,864	320,245	819,787	772,432
Liabilities						
Current	7,350	6,197	7,346	6,678	14,696	12,875
Current portion long-term	7,070	7,290	3,675	3,194	10,745	10,484
Long-term noncurrent	37,861	39,929	91,557	73,061	129,418	112,990
Total liabilities	52,281	53,416	102,578	82,933	154,859	136,349
Deferred Inflow of Resources	90	-	-	-	90	-
Net position						
Net investment in capital assets	333,862	324,872	210,438	207,442	544,300	532,314
Restricted	62,125	63,216	14,646	10,839	76,771	74,055
Unrestricted	23,565	10,683	20,202	19,031	43,767	29,714
Total net position	$ 419,552	$ 398,771	$ 245,286	$ 237,312	$ 664,838	$ 636,083

Net investment in capital assets, consisting of land, buildings, streets, and other significant investments, represent 81.9% of net position. The net investment in capital assets increased by $12.0 million during 2013.

Restricted net position accounts for those resources that are subject to a variety of external constraints including bond covenants, construction requirements, levy agreements, endowment terms, settlement agreements and the Revised Code of Washington. In 2013, the restricted resources is 11.5% of net position, totaling nearly $76.8 million.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without restricting constraints, comprises 6.6% of net position, an increase of $14.1 million from 2012.

Changes in net position

In 2013, government-wide net position increased by $28.8 million, of which $20.8 million is attributable to governmental activities. Governmental activities total revenues increased by $15 million from 2012.

Governmental activities charges for services increased over $3.1 million, capital grants and contributions increased nearly $6.1 million, and tax revenues increased $5.6 million over 2012 tax revenue.

Business-type activities charges for services primarily from utility sources increased by 10.6% to total nearly $57.9 million. The net position for business-type activity for 2013 increased $8.0 million.

Changes in net position *(in thousands)*

Net Position (in thousands)	Governmental activities		Business-type activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Program revenues:						
Charges for services	$ 24,763	$ 21,646	$ 57,898	$ 52,360	$ 82,661	$ 74,006
Operating grants and contributions	6,119	6,169	1,692	3,723	7,811	9,892
Capital grants and contributions	9,393	3,287	1,438	1,118	10,831	4,405
General revenues:						
Property tax	20,987	17,629	-	-	20,987	17,629
Retail sales and use taxes	28,022	25,824	-	-	28,022	25,824
Interfund tax	-	5,855	-	-	-	5,855
Business tax	27,109	20,242	1,275	1,244	28,384	21,486
Other taxes	3,276	4,216	2,933	775	6,209	4,991
Investment Income	177	-	(211)	-	(34)	-
Total revenues	119,846	104,868	65,025	59,220	184,871	164,088
Program expenses:						
General government	$ 11,931	14,291	-	-	11,931	14,291
Public safety	40,762	40,150	-	-	40,762	40,150
Physical environment	5,653	6,826	-	-	5,653	6,826
Transportation	14,957	12,072	-	-	14,957	12,072
Natural and economic environment	6,936	4,208	-	-	6,936	4,208
Social Services	298	77	-	-	298	77
Culture and recreation	13,264	14,844	-	-	13,264	14,844
Interest and redemption of long term deb	2,278	620	-	-	2,278	620
Water	-	-	18,831	17,831	18,831	17,831
Wastewater	-	-	18,727	17,716	18,727	17,716
Surface & stormwater	-	-	5,888	5,551	5,888	5,551
Solid waste	-	-	3,821	1,070	3,821	1,070
Medic one	-	-	9,019	7,307	9,019	7,307
Other business type activities	-	-	3,979	3,667	3,979	3,667
Total expenses	96,079	93,088	60,265	53,142	156,344	146,230
Excess or deficiency before any transfers or gain (loss) on sale of capital assets	23,767	11,780	4,760	6,078	28,527	17,858
Gain (loss) on sale of capital assets	-	-	55	-	55	-
Transfers	(2,764)	(1,412)	2,764	1,412	-	-
Special item - land contribution	-	-	1,177	-	1,177	-
Change in net position	21,003	10,368	8,756	7,490	29,759	17,858
Net position - beginning	398,771	388,311	237,312	231,909	636,083	620,220
Change in accounting principle - GASB 65 removing bond issue costs	(221)		(782)		(1,003)	-
Prior period adjustments	-	92	-	(2,087)	-	(1,995)
Net position - ending	$ 419,553	$ 398,771	$ 245,286	$ 237,312	$ 664,839	$ 636,083

Program revenues and expenses – government-wide

In 2013, overall government-wide revenues increased 12.7% from 2012, to $184.9 million. Charges for services increased from $74 million in 2012 to $82.7 million in 2013. Operating grants and contributions decreased from $9.9 million in 2012 to $7.8 million in 2013. Retail sales and use taxes went up from $25.8 million in 2012 to $28 million in 2013. The sales and use tax increased in part due to the

recovering economy and our proximity to the Canadian border. In 2013, government-wide tax revenues increased from 2012 to $83.6 million.

In 2013, overall government-wide expenses increased 6.9% from 2012, to $156.3 million. Nearly $2.8 million of this increase in government-wide expenses is attributable to the solid waste fund. In December 2013, the remedial investigation and feasibility study (RI/FS) for the Cornwall Landfill was completed. Based on the updated estimated pollution remediation clean-up costs stated in the RI/FS an additional $2.8 million of expenses were added for the Cornwall Landfill site in the solid waste fund. Additionally, Medic One expenses increased nearly $1.7 million. The increase in Medic One expenses is primarily related to a change in the presentation of bad debt expense. Bad debt expense was booked as a contra-revenue account in 2012 whereas in the 2013 proprietary fund statements bad debt is included as part of the general operating expenses. In 2014, Medic One expenses are expected to change again due to a renegotiated contract with Whatcom County that became effective on January 1, 2014. Finally, there was about a $1 million increase in both water and wastewater expenses respectively. During 2012, the City conducted a comprehensive utility rate analysis ultimately enacting a five-year program to increase rates in anticipation of rising operating and capital costs. The rate increases, in addition to switching over several neighborhoods to metered homes to comply with the requirement of WAC 246-290, contributed to the $2 million total increase in water and wastewater expenses. Finally, there were nearly $2.9 million of additional transportation expenses and $2.7 million of additional natural and economic environment expenses. Transportation expenses increased because of the increased activity in the Transportation Benefit District. In June of 2011 an additional 0.2% sales tax was imposed with these additional cash inflows being directed to the TBD. Accordingly, given the additional funding source, TBD expenses increased in 2013.

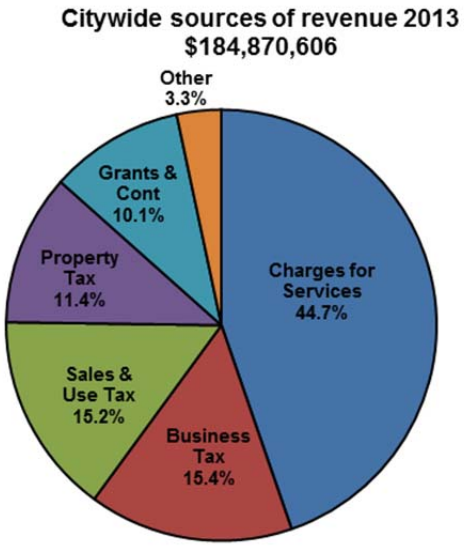
Program revenues and expenses – governmental activities

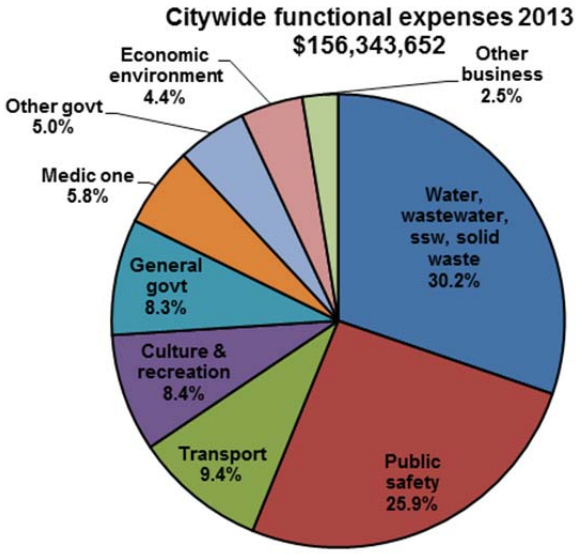
Charges for services program revenue for governmental funds increased overall by $3.1 million in 2013 from 2012. The largest increase in charges for services revenues is from general government, transportation, and culture and recreation. General government increased to nearly $10 million from $8.6 million, transportation increased to $2.7 million from $1.8 million, and culture and recreation program revenue charges for services increased to $4.1 million from $3.3 million. In 2013, overall expenses for governmental activity funds increased by 3.2% compared to 2012. General government, physical environment and culture and recreation expenses all decreased in 2013 compared to the prior year by 14.2%; however this was offset by increases in expenses in transportation, natural and economic environment, social services and interest expenses. The increase in expenses was of a greater magnitude then the decrease which led to the overall increase of 3.2%. In 2013, capital grants and contribution increased significantly jumping from $3.3 million in 2012 up to $9.4 million in 2013. Capital grants and contribution revenues nearly tripled due to the construction of three grant funded roundabouts and the Bakerview overpass. The Bakerview overpass project capital grant revenues were nearly $2.8 million, the Wharf street roundabout revenues were nearly $1.8 million, the Northwest roundabout revenues were $1 million and the McLeod roundabout grant revenues were $921,000. Finally, operating grants and contribution remained flat staying at about $6.2 million in 2012 and 2013.

Program revenues and expenses – business-type activities

Charges for services revenue for the business-type funds increased $5.5 million in 2013 from 2012. Water revenues increased by $2.2 million and wastewater increased by $0.5 million due to an increase in usage rates and the transitioning of some households over to metered water instead of an unmetered flat rate. Additionally Medic One charges for services increased by $1.5 million and surface and storm-water charges for services increased almost $1 million. Overall expenses for business-type activities increased by $7.1 million in 2013 from 2012. Water and wastewater expenses both increased by about $1 million each. This is largely due to an increase in both the water and wastewater operating expenses,

specifically general operations and tax expenses. Surface and stormwater also increased $337,000 and development services increased $185,000. Much of these increases are due to contractually required labor and benefit costs. Parking experienced a decrease in expenses of $37,000. Medic one expenses increased by $1.7 million in 2013 compared to 2012. Medic one is shown separately from the governmental components of public safety as it operates as an enterprise.





Fund level financial analysis

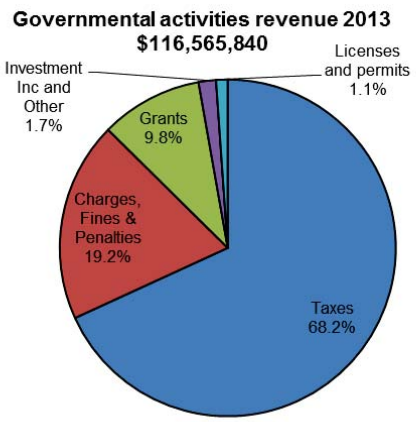
Governmental activities

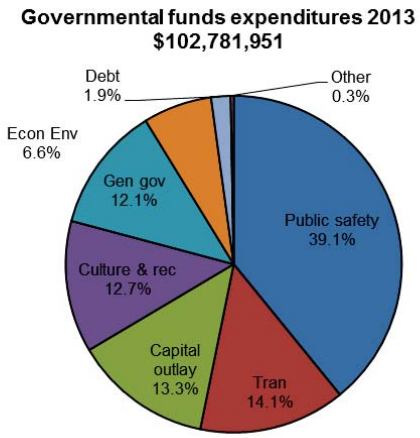
Revenues

In 2011, the City began reporting the former special revenue street fund in the general fund. In 2012, after further evaluation of all special revenue funds, the City reported eleven additional activities in the general fund that were previously reported in special revenue funds given the guidance in GASB 54 (see pages 6-22 to 6-37 in the combining and individual fund statements section). The presentation and grouping of the 2012 major funds is comparable to the 2013 major funds.

Fund balance in governmental funds increased $9.3 million. Of this $9.3 million $13.8 million related to excess revenues over expenditures reduced by $4.5 million in net transfers out, resulting in a final ending fund balance of $87.1 million. Overall governmental revenues increased to $116.6 million from $106.5 million in 2012. The most notable reason for the increase was a significant increase of tax revenues from $72.7 million to $79.5 million in the governmental funds.

Tax revenue is the City's most significant source of governmental revenue, representing 68.2% of total governmental revenue and 71.8% of general fund revenue. Tax revenue supports services such as streets, fire, police and parks which are basic to the City's mission; although they do not generate substantial revenue. The major tax categories are retail sales and use, business and occupation, and property and utility tax. Tax collections overall in these major categories increased 9.4% from 2012 to 2013. Property taxes increased by nearly $3 million with the new low income housing levy which became effective starting in 2013.





Expenditures

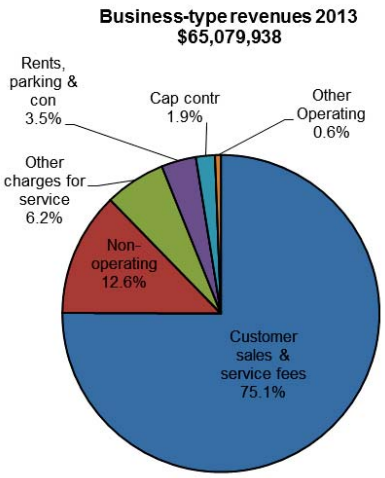
Public safety consisting of fire, police and municipal court accounts for 39.1% of governmental expenditures. General government type expenditures are typically overhead in nature, providing management, accounting, legal, personnel and technical services required by operating programs. They comprise 12.1% of governmental expenditures. Culture and recreation services include most parks and recreation programs, the museum and the library. They represent another 12.7% of governmental expenditures. Additionally, capital outlay represents 13.3%, natural and economic environment 6.6%, transportation 14.1%, and debt expenses represent 1.9% of total governmental expenditures.

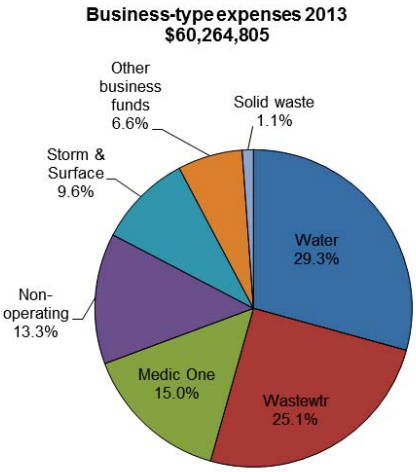
Business-type activities

Net position, including a change in accounting principle adjustment of $782 thousand, increased by $8 million, for a total of $245.3 million in business-type funds. Operating revenues increased by 13.9% and operating expenses increased by 7.5%.

The financial position of the City's business-type funds is largely influenced by the water and wastewater funds. Together they comprise 72.5% of operating revenues, 62.7% of expenses, and 83.5% of net position.

Medic one and the cemetery are business-type activities that require support from the general fund. In 2013, the cemetery received $221,000 and medic one received $1.1 million cash operating subsidies. Additionally, medic one receives a subsidy from Whatcom County and a portion of the voted EMS local sales tax (see note IV-D).





Financial analysis of City funds

At the end of 2013, the City has 24 governmental funds. The general fund is the primary governmental fund and is the City's only major governmental fund.

The general fund ending fund balance increased $5.2 million due to an increase in tax revenues and an increase in charges for services.

The fund balance for non-major governmental funds increased by $4.1 million, due in part to the additional $3 million of property tax assessed in 2013 with the new affordable housing levy.

The City has nine business-type funds. The five major business-type funds are water, wastewater, surface and stormwater, solid waste, and medic one. The water and surface and stormwater funds increased their respective net positions in 2013 by $5.2 million in water and $2.9 million in surface and stormwater due in part to a rate increase. Due to balance sheet recognition of a liability for future estimated pollution remediation costs for closed landfills, the solid waste fund reflects a negative net position of $6.1 million--an increase of about $2.4 million which was related to additional estimated costs noted in the RI/FS report released in December 2013 for the Cornwall Avenue site. The City has four non-major enterprise funds: cemetery, golf, parking services, and development services. Net position for the four funds increased by $1.8 million in 2013 compared to 2012.

The City has eight internal service funds: fleet, purchasing, facilities administration, telecommunication & technology replacement, claims & litigation, unemployment compensation, workers compensation, and health benefits. The overall change in net position for the internal service funds combined was an increase of $631,000 compared to the prior year. The fleet fund decreased $244,000 in 2013, compared to 2012. In 2013, the technology replacement and telecommunication fund had a decrease of $161,000. Claims & litigation fund experienced an increase in net position of $498,000 in 2013 due to a reduction in the number of claims and judgment expenses incurred in 2013. The purchasing materials fund decreased slightly by $148,000 in 2013. Health benefits fund increased $752,000 resulting from insurance premium contribution revenue increasing to $13.1 million in 2013 from $12.4 million in 2012. Unemployment compensation fund had a slight decrease and worker's compensation fund had a increase of $29,000.

General fund budgetary highlights

The budget is legally adopted at the fund level, including the general fund budget. GASB 34 requires the legally adopted budget of the general fund to be presented as required supplementary information (RSI). Accordingly, the general fund in its originally adopted form along with a reconciliation of the general fund presented in the GAAP basis basic financial statements is presented as RSI. The general fund presented in the basic financial statements in accordance with GAAP includes twelve other funds with legally adopted budgets that do not meet the requirements of a special revenue fund per GASB 54 and have accordingly been combined with the general fund. To see comparisons of the original general fund and the general fund combined per GASB 54, see the reconciliation schedule in the Required Supplemental Information (RSI) section of the financial statements. The adopted general fund budget for expenditures was $65.3 million, the final budget after all amendments was $66.8 million and the actual expenditures are $64.1 million. Amendments to the budget are made for the following purposes:

- Supplemental appropriations approved after the beginning of the year to reflect actual beginning account balances and to correct the estimated amounts in the budget adopted December, 2012.
- Increases and decreases in appropriations to recognize actual program costs.
- New appropriations to acknowledge unanticipated revenues and corresponding expenditures.

Actual revenues exceeded the budget by $406,000. Property, retail sales, and other tax revenues came in over budget, at $36,000, $498,000, and $78,000, respectively. Licenses and permits and charges for services actual revenues were also above budget, at $72,000 and $448,000. Charges for services are higher than budget due to several small, one-time miscellaneous revenues that were unanticipated for the year. When accumulated together, these one-time miscellaneous revenues (such as donations) accounted for nearly all of the extra $448,000 of charges for services revenues. The most notable area where 2013 actual revenues were less than budget is business taxes. Business taxes fell short of the budgeted revenues by $536,000. Business taxes included both business and occupation taxes (B&O) taxes as well as utility taxes. Both B&O taxes and utility taxes fell short of the expected revenue with the majority of the shortfall in utility taxes. Utility taxes on telephone, electricity, and gas were all below budget. External tax rates for gas fell in 2013 reducing the overall gross base revenue that taxes are collected on. Additionally, the City had a mild winter which also reduces electrical and gas use. Finally, telephone tax revenues continues to fall as consumers shift to cell phones instead of home lines. Additionally, fines and forfeits are lower than budget by $156,000. Investment income is lower than budget by $174,000 due to the economic down-turn causing historically low interest rates which continue to negatively impact the City's earning on its investments.

Actual expenditures are $2.7 million below budget, or 96% of the final budgeted amounts. This is largely due to capital projects that are budgeted on a project basis and not on a yearly basis.

The legally adopted general fund actual ending fund balance of $16.1 million is above the projected balance of $13.9 million, a $2.1 million difference.

Capital asset and debt administration

Capital assets

At December 31, 2013, the City has invested $620.2 million in a wide range of capital assets throughout governmental and business-type activities, an increase of $46 million from the previous year. This increase is due in part, to the following activity:

- Construction in progress work on the wastewater treatment plant expansion project totaled $37.3 million.
- Construction of three new roundabouts and the Bakerview overpass

Capital assets *(net of depreciation, in thousands)*

	Governmental activities		Business-type activities		Total		Increase (Decrease)
	2013	**2012**	**2013**	**2012**	**2013**	**2,012**	**2013-2012**
Land	$ 132,382	$ 131,578	$ 43,651	$ 41,562	$ 176,033	$ 173,140	$ 2,893
Buildings	30,101	30,854	44,589	46,296	74,690	77,150	(2,460)
Improvements/infrastructure	$ 151,708	145,369	125,917	124,306	277,625	269,675	7,950
Machinery and equipment	11,285	11,913	3,114	3,446	14,399	15,359	(960)
Construction in progress	17,738	15,553	59,705	23,342	77,443	38,895	38,548
Total	$ 343,214	$ 335,267	$ 276,976	$ 238,952	$ 620,190	$ 574,219	$ 45,971

More detailed information about capital assets is presented in note IV-D.

In addition to the capital assets shown above the City also has made commitments to fund several parks, streets, water, sewer, and storm projects. The following chart displays the amounts spent to date on these commitments and the projected remaining costs to complete.

	Spent to date	Remaining commitment
Parks projects	$ 4,009,915	$ 578,716
Street projects	13,773,554	2,303,644
Water projects	1,506,413	151,756
Sewer projects	56,775,788	7,553,100
Storm projects	1,260,093	685,754
	$ 77,325,763	$ 11,272,970

Long-term debt

At December 31, 2013, the City's total outstanding debt was $103 million, an increase of $12.1 million from 2012. The main source of change that led to this increase was the issuance of a new water and sewer revenue bond in August of 2013 for nearly $15.8 million. The City continues to pay-down it's pre-existing debt as well leading to the net change of the $12.1 million.

Outstanding debt *(in thousands)*

	Governmental activities		Business-type activities		Total		Increase (Decrease)
	2013	2012	2013	2012	2013	2012	2013-2012
General obligation bonds	$ 20,490	$ 21,575	$ 6,210	$ 6,575	$ 26,700	$ 28,150	$ (1,450)
Revenue bonds	-	-	70,775	56,920	70,775	56,920	13,855
Special assessment bonds	-	75	-	-	-	75	(75)
Notes payable	120	129	2,700	2,700	2,820	2,829	(9)
Government loans	1,723	1,929	960	1,023	2,683	2,952	(269)
Total	$ 22,333	$ 23,708	$ 80,645	$ 67,218	$ 102,978	$ 90,926	$ 12,052

More detailed information about long-term debt is presented in note IV-H.

The City's bond rating as assigned by Moody's is Aa2 for the City's voted general obligation and revenue bonds. Moody's assigned an Aa3 rating to the City's un-voted tax backed general obligation bonds. Standard and Poor's Rating Services (S&P) raised its long-term rating to 'AA+' from 'AA' on the City's limited-tax general obligation (GO) bonds.

State law limits the amount of general obligation debt the City can issue to a percentage of the total assessed value of the taxable property. The limits are:

- 1.5% non-voted
- 2.5% voted and non-voted
- 7.5% voted if excess over 2.5% is for utilities, parks or open space development

Calculation of legally available debt at December 31, 2013

Legal Debt Margin Calculation for Fiscal Year 2013	
Total assessed value	$8,554,046,711
Debt limit:	
Non-voted debt limit (1.5% of assessed value)	128,310,701
Voted debt limit (1.0% of assessed value)	85,540,467
Total debt limit	213,851,168
Debt applicable to limit:	
General obligation bonds	26,700,000
Other debt	421,169
Less: assets available for repayment of debt	(1,328,937)
Total debt applicable to limit	25,792,232
Legal debt margin	$ 188,058,936

Economic factors and the 2014 budget

Since mid-2010 there has been a modest recovery from the recession, which began in late 2008. The recovery has resulted in the addition of about 3,400 new jobs in the Bellingham/Whatcom County area. The improvement in the number of employed has resulted in a reduction of the unemployment rate which, stood at 6.2% at December 31, 2013 down from the 2012 rate of 7.5%

- Washington statewide 2013 unemployment rate is 6.3%, down from the 2012 rate of 8.2%
- National unemployment rate for 2013 is 6.7%, down from the 2012 rate of 7.9%

The Seattle Metropolitan Statistical Area (MSA) is the closest proximity to Bellingham for inflation rate indication. In 2013, the Seattle MSA inflation rate is 1.2%, which is below the Class B/C national inflation rate of 1.3%.

Over the last ten-years net bonded debt per capita has decreased from $410 to $308.

The City's assessed value per capita has decreased slightly from $102,351 in 2012 to $101,429 in 2013. With 82,310 citizens in the City the ratio of the number of City employees is 10.3 per one thousand of the City's population.

The general fund adopted budget for 2014 has $84.4 million of resources available for appropriation. General fund adopted budget expenditures for 2014 are $71.5 million. The City's financial condition continues to improve in response to the changing economic, social and environmental requirements impacting the community.

As of January 1, 2014, the City entered into a new inter-local agreement with Whatcom County in regards to the Medic One fund. The negotiated contract #2013-0604, which begins in 2014, will lead to increased revenues for the City from the County. As consideration for the provision of the ALS services provided by the City the County agreed to pay the City a fee for ALS services and additional transition costs based upon an agreed upon schedule.

Contacting the City's financial management

This financial report is designed to provide those with an interest in the City's financial condition with a general overview of the City's finances and to demonstrate accountability for the money it receives. The activities of the City's two discrete component units are also reflected in the basic financial statements. Questions concerning any of the information contained herein or requests for additional information should also be addressed to the Finance Director, City of Bellingham, 210 Lottie Street, Bellingham, WA 98225.

CITY OF BELLINGHAM
Government-Wide
Statement of Net Position
December 31, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Public Facilities District	Public Development Authority
ASSETS					
Cash and cash equivalents	$ 6,964,378	$ 6,742,359	$ 13,706,737	$ 124,506	$ 13,226
Investments	43,360,842	34,348,655	77,709,497	634,288	67,377
Receivables, net	2,483,717	3,914,666	6,398,383	4,225	173
Restricted assets:					
Cash and cash equivalents	7,983,971	3,804,369	11,788,340	138,658	-
Investments	32,110,688	19,381,202	51,491,890	706,390	-
Due from other governments	1,122,912	149,930	1,272,842	-	-
Due from component units	9,235,000	-	9,235,000	-	-
Amortizable bond costs	1,097,757	351,514	1,449,271	-	-
Special assessments	298,761	57,931	356,692	-	-
Inventories	830,613	-	830,613	-	-
Prepaid items	374,903	2,136,484	2,511,387	47,180	-
Notes and contracts receivable	13,606,703	-	13,606,703	-	-
Net pension asset	9,239,274	-	9,239,274	-	-
Capital assets, not being depreciated:					
Land	132,381,530	43,650,796	176,032,326	1,329,860	1,300
Improvements	17,614,900	-	17,614,900	-	-
Construction in progress	17,738,393	59,705,376	77,443,769	-	-
Capital assets, net of depreciation:					
Buildings	30,101,408	44,588,677	74,690,085	15,164,848	-
Improvements other than buildings	134,092,586	125,917,411	260,009,997	7,572,519	-
Machinery and equipment	11,285,039	3,114,159	14,399,198	-	-
Total assets	471,923,375	347,863,529	819,786,904	25,722,474	82,076
LIABILITIES					
Accounts payable	2,928,770	4,062,776	6,991,546	485	601
Accrued wages and benefits	3,305,925	515,937	3,821,862	-	2,290
Due to primary government	-	-	-	9,235,000	-
Internal balances	(990,129)	990,129	-	-	-
Due to other governments	4,668	135,110	139,778	-	-
Other current liabilities	2,104,592	1,777,488	3,882,080	55,327	3,705
Noncurrent liabilities (see note IV-H):					
Due within one year	7,065,347	3,539,718	10,605,065	-	-
Due in more than one year	37,861,438	91,556,834	129,418,272	9,966,312	-
Total liabilities	52,280,611	102,577,992	154,858,603	19,257,124	6,596
DEFERRED INFLOW OF RESOURCES					
Grants received in advance	90,250	-	90,250	-	-
Total deferred inflow of resources	90,250	-	90,250	-	-
NET POSITION					
Net investment in capital assets	333,862,114	210,438,258	544,300,372	4,865,916	1,300
Restricted for:					
Expendable					
Capital projects	451,542	6,826,225	7,277,767	-	-
Cemetery endowment and preneed services	-	396,595	396,595	-	-
Debt service funds	9,266,392	7,422,345	16,688,737	845,048	-
Environmental remediation	1,406,204		1,406,204	-	-
Federal building	427,435	-	427,435	-	-
HUD programs	13,327,977	-	13,327,977	-	-
Library gift	63,739	-	63,739	-	-
Low income housing	2,809,748	-	2,809,748	-	-
Other state and federal programs	26,592	-	26,592	-	-
Parks	10,137,299	-	10,137,299	-	-
Permanent funds	359,487	-	359,487	-	-
Public, education and gov't assistance	701,999	-	701,999	-	-
Public safety	3,839,587	-	3,839,587	-	-
Public safety donations	37,991	-	37,991	-	-
Real estate excise tax for improvements	6,071,257	-	6,071,257	-	-
Tourism	480,133	-	480,133	-	-
Traffic impact fees for streets	1,460,163	-	1,460,163	-	-
Transportation benefit district	2,620,397	-	2,620,397	-	-
Nonexpendable					
Permanent funds principal	8,637,462	-	8,637,462	-	-
Unrestricted	23,564,996	20,202,114	43,767,110	754,386	74,180
Total net position	$ 419,552,514	$ 245,285,537	$ 664,838,051	$ 6,465,350	$ 75,480

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

CITY OF BELLINGHAM
Government-Wide
Statement of Activities
For the Year Ended December 31, 2013

			Program Revenues			Net (Expense) Revenue and Changes in Net Position				
						Primary Government			Component Units	
Functions/Program	**Expenses**	**Indirect Expenses Allocation**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Public Facilities District**	**Public Development Authority**
Primary Government:										
Governmental activities:										
General government	$ 12,938,178	$ (1,006,827)	$ 9,995,525	$ 1,071,141	$ -	$ (864,685)	$ -	$ (864,685)		
Public safety	40,543,763	218,089	5,021,635	2,694,449	11,616	(33,034,152)	-	(33,034,152)		
Physical environment	5,262,932	389,620	2,851,207	603,254	1,122,075	(1,076,016)	-	(1,076,016)		
Transportation	14,739,413	217,963	2,744,691	353,455	8,225,356	(3,633,874)	-	(3,633,874)		
Natural and economic environment	6,935,800	-	13,771	1,268,563	-	(5,653,466)	-	(5,653,466)		
Social services	238,327	60,000	-	-	-	(298,327)	-	(298,327)		
Culture and recreation	13,142,560	121,155	4,136,307	127,886	33,781	(8,965,741)	-	(8,965,741)		
Interest and redemption of long term debt	2,277,874	-	-	-	-	(2,277,874)	-	(2,277,874)		
Total governmental activities	96,078,847	-	24,763,136	6,118,748	9,392,828	(55,804,135)	-	(55,804,135)		
Business-type activities:										
Water	18,831,300	-	22,823,773	-	661,665	-	4,654,138	4,654,138		
Wastewater	18,726,642	-	19,389,261	2,938	279,257	-	944,814	944,814		
Surface and stormwater	5,887,978	-	6,500,655	248,630	497,373	-	1,358,680	1,358,680		
Solid waste	3,820,556	-	209,253	6,034	-	-	(3,605,269)	(3,605,269)		
Cemetery	557,285	-	275,548	-	-	-	(281,737)	(281,737)		
Golf course	265,759	-	224,818	-	-	-	(40,941)	(40,941)		
Parking	1,285,864	-	2,085,321	-	-	-	799,457	799,457		
Medic one	9,019,331	-	3,781,589	1,434,871	-	-	(3,802,871)	(3,802,871)		
Development services	1,870,090	-	2,607,991	-	-	-	737,901	737,901		
Total business-type activities	60,264,805	-	57,898,209	1,692,473	1,438,295	-	764,172	764,172		
Total primary government	$ 156,343,652	$ -	$ 82,661,345	$ 7,811,221	$ 10,831,123	(55,804,135)	764,172	(55,039,963)		
Component units:										
Public Facilities District	$ 1,477,666	$ -	$ 9,452	$ 7,900	$ -				$ (1,460,314)	
Public Development Authority	315,978	-	-	250,000	-					$ (65,978)
Total component units	$ 1,793,644	$ -	$ 9,452	$ 257,900	$ -					
General revenues:										
Property taxes		-				20,986,967	-	20,986,967	-	-
Retail sales and use taxes						28,021,708	-	28,021,708	1,190,698	-
Business taxes						27,109,401	1,274,696	28,384,097	-	-
Other taxes						3,275,785	2,932,997	6,208,782	-	-
Investment Income						176,643	(211,280)	(34,637)	1,452	7,515
Gain (loss) on sale of capital assets						-	54,548	54,548	-	-
Transfers						(2,763,834)	2,763,834	-	-	-
Special items:										
Repayment of land contribution						-	1,176,877	1,176,877	-	(1,176,877)
Total general revenues, gain/loss on capital assets, transfers, and special item						76,806,670	7,991,672	84,798,342	1,192,150	(1,169,362)
Change in net position						21,002,535	8,755,844	29,758,379	(268,164)	(1,235,340)
Net position - beginning						398,771,066	237,311,585	636,082,651	6,869,305	1,310,820
Change in accounting principle - GASB 65 removing bond issue costs						(221,087)	(781,892)	(1,002,979)	(135,791)	-
Net position - ending						$ 419,552,514	$ 245,285,537	$ 664,838,051	$ 6,465,350	$ 75,480

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

CITY OF BELLINGHAM
Balance Sheet
Governmental Funds
December 31, 2013

	General	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 8,444,630	$ 3,082,888	$ 11,527,518
Investments	42,674,394	15,369,847	58,044,241
Receivables, net	2,073,444	212,189	2,285,633
Due from other funds	124,614	559	125,173
Due from other governments	631,971	490,941	1,122,912
Due from component units	-	9,235,000	9,235,000
Interfund loans receivable	-	3,232,022	3,232,022
Prepaid items	185,207	129,250	314,457
Special assessments	-	298,761	298,761
Notes and contracts receivable	326,483	13,280,220	13,606,703
Total assets	54,460,743	45,331,677	99,792,420
LIABILITIES			
Accounts payable	1,438,320	845,934	2,284,254
Accrued wages and benefits	2,854,830	217,848	3,072,678
Due to other funds	21,031	100,100	121,131
Interfund loans payable	4,527,796	-	4,527,796
Due to other governments	4,668	-	4,668
Other liabilities	738,980	7,366	746,346
Unearned revenue	1,457,338	341,745	1,799,083
Total liabilities	11,042,963	1,512,993	12,555,956
DEFERRED INFLOW OF RESOURCES			
Grants received in advance	90,250	-	90,250
Total deferred inflow of resources	90,250	-	90,250
FUND BALANCES			
Nonspendable:			
Permanent funds	-	8,637,462	8,637,462
Prepaid items	185,207	129,250	314,457
Restricted:			
Capital project funds		485,450	485,450
Debt service funds	-	8,967,631	8,967,631
Environmental remediation	-	1,011,373	1,011,373
Federal building	-	427,435	427,435
HUD programs	-	13,327,977	13,327,977
Library gift	-	63,739	63,739
Low income housing	-	2,774,207	2,774,207
Other state and federal programs	26,592	-	26,592
Parks	10,062,041	-	10,062,041
Permanent funds	-	352,044	352,044
Public, education and gov't assistance	-	701,999	701,999
Public safety	-	3,839,587	3,839,587
Public safety donations	37,991	-	37,991
Real estate excise tax for improvements	6,071,257	-	6,071,257
Tourism	-	480,133	480,133
Traffic impact fees for streets	1,460,163	-	1,460,163
Transportation benefit district	-	2,620,397	2,620,397
Committed:			
Legal environmental remediation	1,298,107	-	1,298,107
Streets	9,669,579	-	9,669,579
Assigned:			
Public safety donations	8,429	-	8,429
Debt service funds	-	-	-
Civic field maintenance	-	-	-
Unassigned:	14,508,164	-	14,508,164
Total fund balances	43,327,530	43,818,684	87,146,214
Total liabilities, deferred inflow of resources and fund balances	$ 54,460,743	$ 45,331,677	$ 99,792,420

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

CITY OF BELLINGHAM
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2013

Total fund balance of governmental funds		$ 87,146,214
Amounts reported for governmental activities in the government-wide statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		332,015,158
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Accrued investment interest	147,562	
Net pension asset	9,239,274	
Amortizable bond costs	1,097,757	
Unearned revenue	1,799,083	
		12,283,676
Internal service funds are used by management to charge the cost of certain activities such as fleet, purchasing, facilities, telecommunication and health and welfare benefits to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		24,156,374
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued interest payable on long-term debt	(42,601)	
Net OPEB obligation	(812,467)	
Bond premium(discount) amortization	(934,160)	
Compensated absences	(4,812,637)	
GASB 49 pollution remediation costs	(13,594,460)	
GO bonds, loans, and notes payable	(15,852,583)	
		(36,048,908)
Net position of governmental activities		$ 419,552,514

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

CITY OF BELLINGHAM
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 69,783,402	$ 9,673,789	$ 79,457,191
Licenses and permits	857,526	443,027	1,300,553
Intergovernmental revenue	7,359,650	4,092,926	11,452,576
Charges for services	17,409,056	3,833,944	21,243,000
Fines and penalties	1,159,922	-	1,159,922
Investment income	(118,279)	356,685	238,406
Miscellaneous revenues	762,961	951,231	1,714,192
Total revenues	97,214,238	19,351,602	116,565,840
EXPENDITURES			
Current:			
General government	12,416,812	-	12,416,812
Public safety	35,545,985	4,654,876	40,200,861
Physical environment	2,422	51,909	54,331
Transportation	13,057,124	1,415,170	14,472,294
Natural and economic environment	3,619,666	3,178,785	6,798,451
Social services	238,327	-	238,327
Cultural and recreation	12,747,688	260,783	13,008,471
Debt service:			
Redemption of general long-term debt	-	1,375,686	1,375,686
Interest and other debt service cost	48,264	505,393	553,657
Capital outlay	10,557,520	3,105,541	13,663,061
Total expenditures	88,233,808	14,548,143	102,781,951
Excess (deficiency) of revenues over (under) expenditures	8,980,430	4,803,459	13,783,889
OTHER FINANCING SOURCES (USES)			
Transfers in	1,272,053	930,040	2,202,093
Transfers out	(5,079,083)	(1,614,681)	(6,693,764)
Total other financing sources and (uses)	(3,807,030)	(684,641)	(4,491,671)
Net change in fund balances	5,173,400	4,118,818	9,292,218
Fund balances - beginning	38,154,130	39,699,866	77,853,996
Fund balances - ending	$ 43,327,530	$ 43,818,684	$ 87,146,214

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

CITY OF BELLINGHAM
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2013

Net change in fund balances of total governmental funds		$ 9,292,218
Amounts reported for governmental activities in the government-wide statement of activities that are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays	5,645,903	
Donated assets	3,434,175	
Current year retired and abandoned assets	(700,153)	
		8,379,925
Revenues in the statement of activities that do not provide current financial resources and are not reported in the funds are:		
Accounts receivable	(39,206)	
Accrued investment interest	(8,582)	
Net pension asset	848,235	
Unearned revenue	(280,554)	
		519,893
Internal service funds are used by management to charge the cost of certain activities, such as fleet, purchasing, facilities, telecommunication and health and welfare benefits to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		630,979
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Accrued interest payable on long-term debt	3,983	
Net OPEB obligation	(140,675)	
Bond premium(discount) amortization	(57,761)	
Compensated absences	(278,078)	
GASB 49 pollution remediation costs	1,215,356	
GO bonds, loans, and notes payable	1,375,686	
		2,118,511
Change in accounting principle - GASB 65 removing bond costs		(160,081)
Change in net position of governmental activities		$ 20,781,445

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

CITY OF BELLINGHAM
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
ASSETS	**Water**	**Wastewater**	**Surface and Stormwater**	**Solid Waste**	**Medic One**	**Other Non-Major Enterprise Funds**	**Totals**	
Current assets:								
Cash and cash equivalents	$ 1,508,972	$ 2,038,394	$ 816,165	$ 1,245,772	$ 141,814	$ 991,242	$ 6,742,359	$ 3,354,619
Investments	7,687,395	10,384,520	4,157,924	6,346,509	722,468	5,049,839	34,348,655	17,089,977
Receivables, net	1,305,822	1,175,076	546,840	25,672	353,353	507,903	3,914,666	50,522
Due from other funds	1,031	-	39,354	-	-	-	40,385	-
Interfund loans receivable	-	-	-	-	-	-	-	986,646
Due from other governments	9,490	52	138,249	2,139	-	-	149,930	-
Inventories	-	-	-	-	-	-	-	830,613
Prepaid items	-	-	-	2,135,796	-	688	2,136,484	60,446
Total current assets	10,512,710	13,598,042	5,698,532	9,755,888	1,217,635	6,549,672	47,332,479	22,372,823
Noncurrent assets:								
Restricted cash and cash equivalents	1,007,461	2,722,400	-	9,433	-	65,075	3,804,369	66,212
Restricted investments	5,132,470	13,869,158	-	48,054	-	331,520	19,381,202	337,312
Amortizable bond costs	328,714	-	-	22,800	-	-	351,514	-
Special assessments	-	57,931	-	-	-	-	57,931	-
Capital assets, not being depreciated:								
Land	34,151,659	3,925,297	4,052,205	-	52,457	1,469,178	43,650,796	40,102
Construction in progress	1,587,030	56,808,675	1,260,093	-	-	49,578	59,705,376	2,323
Capital assets, net of depreciation:								
Buildings	7,256,425	34,686,983	-	2,649	309,055	2,333,565	44,588,677	1,433,189
Improvements	56,245,965	45,736,672	22,923,337	359,188	4,663	647,586	125,917,411	14,418
Machinery and equipment	695,013	1,718,354	250,033	95,741	287,243	67,775	3,114,159	9,708,666
Total noncurrent assets	106,404,737	159,525,470	28,485,668	537,865	653,418	4,964,277	300,571,435	11,602,222
Total assets	116,917,447	173,123,512	34,184,200	10,293,753	1,871,053	11,513,949	347,903,914	33,975,045

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

CITY OF BELLINGHAM
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
LIABILITIES	**Water**	**Wastewater**	**Surface and Stormwater**	**Solid Waste**	**Medic One**	**Other Non-Major Enterprise Funds**	**Totals**	
Current liabilities:								
Accounts payable	271,250	3,263,122	291,394	42,152	127,188	67,670	4,062,776	644,516
Accrued wages and benefits	150,353	176,069	63,383	6,518	2,468	117,146	515,937	233,247
Due to other funds	39,354	-	2,189	-	2,325	-	43,868	559
Due to other governments	89,706	28,644	7,144	-	-	9,616	135,110	-
Interfund loans payable	986,646	-	-	-	-	-	986,646	-
Other current liabilities	497,729	1,098,149	-	26,089	-	155,521	1,777,488	19,871
Current portion:								
Bonds payable, net	1,690,000	305,000	-	385,000	-	-	2,380,000	-
Compensated absences	183,565	212,895	56,949	6,902	-	109,145	569,456	209,518
Due to other governments	102,283	-	-	-	-	-	102,283	-
Claims and judgements payable		-	-	-	-	-	-	631,275
Pollution remediation obligation	-	-	-	487,979	-	-	487,979	-
Total current liabilities	4,010,886	5,083,879	421,059	954,640	131,981	459,098	11,061,543	1,738,986
Noncurrent liabilities:								
Bonds payable, net	11,873,531	60,668,982	-	5,796,281	-	-	78,338,794	6,480,000
Compensated absences	37,863	18,165	3,559	386	-	4,005	63,978	56,177
Due to other governments	818,267	-	39,354	-	-	-	857,621	-
Claims and judgements payable	-	-	-	-	-	-	-	1,543,508
Notes and contracts payable	2,700,000	-	-	-	-	-	2,700,000	-
Pollution remediation obligation	-	-	-	9,596,441	-	-	9,596,441	-
Total noncurrent liabilities	15,429,661	60,687,147	42,913	15,393,108	-	4,005	91,556,834	8,079,685
Total liabilities	19,440,547	65,771,026	463,972	16,347,748	131,981	463,103	102,618,377	9,818,671
NET POSITION								
Net investment in capital assets	85,599,150	90,714,116	28,446,315	457,577	653,418	4,567,682	210,438,258	11,198,699
Restricted for debt service	1,760,764	5,603,408	-	58,173	-	-	7,422,345	8,693
Restricted for cemetery endowment and preneed	-	-	-	-	-	396,595	396,595	-
Restricted for water capital improvements	4,452,373	-	-	-	-	-	4,452,373	-
Restricted for wastewater capital improvements	-	2,373,852	-	-	-	-	2,373,852	-
Restricted for facilities non-capital improvements	-	-	-	-	-	-	-	394,831
Unrestricted	5,664,613	8,661,110	5,273,913	(6,569,745)	1,085,654	6,086,569	20,202,114	12,554,151
Total net position	$ 97,476,900	$ 107,352,486	$ 33,720,228	$ (6,053,995)	$ 1,739,072	$ 11,050,846	$ 245,285,537	$ 24,156,374

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

CITY OF BELLINGHAM
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds							
	Water	Wastewater	Surface and Stormwater	Solid Waste	Medic One	Other Non-Major Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Operating revenues:								
Sales of merchandise	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,479,404
Less: Cost of goods sold	-	-	-	-	-	-	-	(1,559,230)
Customer sales and service fees	20,283,405	16,045,997	5,704,502	170,277	3,765,093	2,881,309	48,850,583	-
Charges for services	1,456,118	2,232,151	351,068	-	-	-	4,039,337	5,161,328
Rents, parking and concessions	-	-	-	-	-	2,307,589	2,307,589	-
Insurance premium contribution	-	-	-	-	-	-	-	15,093,564
Other operating revenues	277,458	-	106,358	-	-	-	383,816	1,523,923
Total operating revenues	22,016,981	18,278,148	6,161,928	170,277	3,765,093	5,188,898	55,581,325	22,698,989
Operating expenses:								
General operations	8,227,788	7,308,483	3,808,945	491,946	8,379,965	1,810,360	30,027,487	8,344,583
General administration	2,526,733	2,562,321	1,004,512	174,871	521,094	2,013,737	8,803,268	1,002,013
Depreciation	2,256,463	2,817,527	887,959	21,374	118,272	154,848	6,256,443	1,517,265
Taxes	4,627,157	2,439,044	76,178	-	-	-	7,142,379	-
Risk transfer payments	-	-	-	-	-	-	-	11,969,774
Payments to claimants and beneficiaries	-	-	-	-	-	-	-	892,334
Total operating expenses	17,638,141	15,127,375	5,777,594	688,191	9,019,331	3,978,945	52,229,577	23,725,969
Operating income (loss)	4,378,840	3,150,773	384,334	(517,914)	(5,254,238)	1,209,953	3,351,748	(1,026,980)
Nonoperating revenues (expenses):								
External operating subsidies	49,432	2,938	369,849	6,034	1,434,871	-	1,863,124	226,724
Operating assessments and tax levies	-	-	-	1,274,696	2,932,997	-	4,207,693	-
Investment interest	123,111	243,322	42,447	64,943	8,004	45,806	527,633	188,820
Net incr (decr) in fair value of investments	(178,309)	(329,140)	(57,622)	(88,519)	(10,162)	(75,161)	(738,913)	(242,001)
Interest expense and related charges	(608,590)	(2,279,854)	-	(335,299)	-	(53)	(3,223,796)	(352,514)
Gain (loss) on sale of capital assets	-	-	54,548	-	-	-	54,548	(15,182)
Other nonoperating revenues	806,792	1,111,113	338,727	38,976	16,496	4,780	2,316,884	185,284
Other nonoperating expenses	(584,569)	(1,319,413)	(110,384)	(2,797,066)	-	-	(4,811,432)	-
Total nonoperating revenues (expenses)	(392,133)	(2,571,034)	637,565	(1,836,235)	4,382,206	(24,628)	195,741	(8,869)
Income (loss) before contributions and transfers	3,986,707	579,739	1,021,899	(2,354,149)	(872,032)	1,185,325	3,547,489	(1,035,849)
Capital contributions	612,233	279,257	376,154	-	-	-	1,267,644	-
Transfers in	874,782	-	1,503,775	-	1,067,774	221,480	3,667,811	1,794,727
Transfers out	(37,165)	(37,214)	(16,601)	-	(13,543)	(799,454)	(903,977)	(66,890)
Special item - repayment of land contribution	-	-	-	-	-	1,176,877	1,176,877	-
Change in net position	5,436,557	821,782	2,885,227	(2,354,149)	182,199	1,784,228	8,755,844	691,988
Total net position - beginning	92,239,020	107,048,006	30,835,001	(3,633,933)	1,556,873	9,266,618	237,311,585	23,525,392
Change in accounting principle - GASB 65 removing bond issue costs	(198,677)	(517,302)	-	(65,913)	-	-	(781,892)	(61,006)
Total net position - ending	$ 97,476,900	$ 107,352,486	$ 33,720,228	$ (6,053,995)	$ 1,739,072	$ 11,050,846	$ 245,285,537	$ 24,156,374

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

CITY OF BELLINGHAM
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds							Governmental Activities Internal Service Funds
	Water	Wastewater	Surface and Stormwater	Solid Waste	Medic One	Other Non-Major Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	$ 21,627,144	$ 17,955,866	$ 6,012,837	$ 160,976	$ 3,893,809	$ 5,222,911	$ 54,873,543	$ 83,217
Receipts from interfund services provided	612,561	927,880	288,607	38,778	-	-	1,867,826	24,164,530
Payments for merchandise	-	-	-	-	-	-	-	(841,426)
Payments for wages and benefits	(3,389,192)	(3,824,770)	(1,604,032)	(164,638)	(4,462,200)	(2,264,877)	(15,709,709)	(3,923,356)
Payments for operating expenses	(12,055,787)	(7,152,256)	(3,179,677)	(489,232)	(4,403,272)	(1,540,058)	(28,820,282)	(18,417,382)
Other receipts	194,231	183,233	50,118	198	16,496	4,778	449,054	49,213
Other payments	(544,680)	(1,044,687)	(102,949)	(18,787)	-	(688)	(1,711,791)	-
Net cash provided (used) by operating activities	6,444,277	7,045,266	1,464,904	(472,705)	(4,955,167)	1,422,066	10,948,641	1,114,796
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers in	874,782	-	1,503,775	-	1,067,774	221,480	3,667,811	1,750,355
Transfers out	(37,165)	(37,214)	(16,601)	-	(13,543)	(799,454)	(903,977)	(66,890)
Payments for interest	-	-	-	(332,582)	-	-	(332,582)	(352,513)
Principal payments on bonds	-	-	-	(365,000)	-	-	(365,000)	-
Receipts from other governmental units	103,732	3,011	351,926	28,387	4,367,868	1,176,877	6,031,801	226,724
Interfund receipts for bond repayment	-	-	-	-	-	-	-	136,071
Interfund loan repayments	-	-	-	-	-	-	-	731,062
Receipts for taxes	-	-	-	1,274,702	-	-	1,274,702	-
Net cash provided (used) by noncapital financing activities	941,349	(34,203)	1,839,100	605,507	5,422,099	598,903	9,372,755	2,424,809
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Local improvement district proceeds	-	45,031	-	-	-	-	45,031	-
Principal payments on bonds	(1,615,000)	(315,000)	-	-	-	-	(1,930,000)	-
Revenue bond issue revenue	-	15,785,000	-	-	-	-	15,785,000	-
Payments for interest and related charges	(628,515)	(2,012,690)	-	-	-	(53)	(2,641,258)	-
Purchases of capital assets	(1,655,181)	(38,566,652)	(3,091,109)	-	-	(22,284)	(43,335,226)	(1,137,403)
Proceeds from the sale of capital assets	-	-	54,548	-	-	-	54,548	82,983
Interfund loan payments	(731,062)	-	-	-	-	-	(731,062)	-
Principal paid on loans	(102,283)	-	-	-	-	-	(102,283)	-
Net cash provided (used) by capital financing activities	(4,732,041)	(25,064,311)	(3,036,561)	-	-	(22,337)	(32,855,250)	(1,054,420)
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from sales and maturity of investments	6,386,388	30,784,867	2,550,331	4,148,339	101,662	1,968,092	45,939,679	9,894,988
Purchase of investments	(9,029,247)	(17,082,273)	(2,928,495)	(4,503,800)	(508,846)	(3,790,181)	(37,842,842)	(12,595,149)
Interest and dividends received	123,544	304,173	44,125	68,249	7,199	43,701	590,991	192,272
Net cash provided (used) in investment activities	(2,519,315)	14,006,767	(334,039)	(287,212)	(399,985)	(1,778,388)	8,687,828	(2,507,889)
Net increase (decrease) in cash and equivalents	134,270	(4,046,481)	(66,596)	(154,410)	66,947	220,244	(3,846,026)	(22,704)
Cash and cash equivalents - beginning of year	2,382,163	8,807,275	882,761	1,409,615	74,867	836,073	14,392,754	3,443,535
Cash and cash equivalents - end of year	2,516,433	4,760,794	816,165	1,255,205	141,814	1,056,317	10,546,728	3,420,831
Cash at end of year consists of								
Cash and cash equivalents	1,508,972	2,038,394	816,165	1,245,772	141,814	991,242	6,742,359	3,354,619
Restricted cash	1,007,461	2,722,400	-	9,433	-	65,075	3,804,369	66,212
Total cash at end of year	$ 2,516,433	$ 4,760,794	$ 816,165	$ 1,255,205	$ 141,814	$ 1,056,317	$ 10,546,728	$ 3,420,831

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

CITY OF BELLINGHAM
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities Enterprise Funds							Governmental Activities Internal Service Funds
	Water	Wastewater	Surface and Stormwater	Solid Waste	Medic One	Other Non-Major Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:								
Operating income (loss)	$ 4,378,840	$ 3,150,773	$ 384,334	$ (517,914)	$ (5,254,238)	$ 1,209,953	$ 3,351,748	$ (1,026,980)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:								
Depreciation	2,256,463	2,817,527	887,959	21,374	118,272	154,849	6,256,444	1,517,265
Other nonoperating receipts	806,792	1,111,113	338,725	38,976	16,496	4,778	2,316,880	49,213
Other nonoperating expenses	(544,680)	(1,044,687)	(102,949)	(18,787)	-	(688)	(1,711,791)	-
Change in assets and liabilities:								
(Increase) decrease in accounts receivable	(351,243)	(274,902)	(149,091)	(9,301)	128,717	46,991	(608,829)	(5,716)
(Increase) decrease in due from other funds	(1,031)	-	-	-	-	-	(1,031)	-
(Increase) decrease in inventory of supplies	-	-	-	-	-	-	-	717,804
(Increase) decrease in prepayments	-	-	-	-	501	-	501	1,781
Increase (decrease) in accounts payable	(117,326)	1,161,259	107,716	9,880	32,718	10,514	1,204,761	(21,909)
Increase (decrease) in wages and benefits payable	(4,567)	30,013	(5,231)	3,067	42	13,824	37,148	64,289
Increase (decrease) in revenues collected in advance	(20,247)	(51,653)	-	-	-	(12,978)	(84,878)	(5,355)
Increase (decrease) in due to other funds	39,354	-	2,189	-	2,325	-	43,868	559
Increase (decrease) in other current liabilities	(17,316)	144,190	-	-	-	(954)	125,920	49,130
Increase (decrease) in other fees and taxes	19,238	1,633	1,252	-	-	(4,223)	17,900	771
Increase (decrease) in other long-term liabilities	-	-	-	-	-	-	-	(226,056)
Net cash provided (used) by operating activities	$ 6,444,277	$ 7,045,266	$ 1,464,904	$ (472,705)	$ (4,955,167)	$ 1,422,066	$ 10,948,641	$ 1,114,796
Non-cash investing, capital, and financing activities:								
Net change in fair value of investments	(178,309)	(329,140)	(57,622)	(88,519)	(10,162)	(75,161)	(738,913)	(242,001)
Contributions from developers	612,233	279,257	376,154	-	-	-	1,267,644	-
Fleet donations	-	-	-	-	-	-	-	44,372

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

CITY OF BELLINGHAM
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 2,120,039	$ 231,935
Invested in government securities	10,800,453	-
Receivables, net	64,862	2,804
Interfund loans receivable	1,295,774	-
Total assets	14,281,128	234,739
LIABILITIES		
Accounts payable	8,179	66,614
Accrued pension benefits	117,917	-
Other liabilities	34,822	168,125
Total liabilities	160,918	234,739
NET POSITION HELD IN TRUST	$ 14,120,210	$ -

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

CITY OF BELLINGHAM
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2013

	Pension Trust Funds
ADDITIONS	
Contributions:	
Taxes	$ 2,016,993
Auction proceeds - unclaimed property	19,389
Employer contributions	1,373,448
Total trust contributions	3,409,830
Investment income:	
Interest	119,686
Net incr (decr) in fair value of investments	(149,759)
Net investment income	(30,073)
Total additions	3,379,757
DEDUCTIONS	
Benefits	2,652,462
Administration expense	106,517
Total deductions	2,758,979
CHANGE IN NET POSITION	
Pension benefits change	234,276
Net position pension benefits, January 1, 2013	8,962,685
Net position--restricted for pension benefits, December 31, 2013	9,196,961
Long-term care benefits	386,502
Net position long-term care benefits, January 1, 2013	4,536,747
Net position long-term care benefits, December 31, 2013	4,923,249
Total net position, December 31, 2013	$ 14,120,210

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

Notes to Financial Statements

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bellingham 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. Significant accounting policies and their application in Bellingham are described below.

I-A Reporting entity

The City of Bellingham was incorporated on July 29, 1904. It operates under the laws of the State of Washington applicable to a first class, home rule, Charter City with a mayor-council form of government.

The City is a general-purpose government and provides public safety, fire prevention, street improvement, parks and recreation, judicial administration, planning, economic development, and general administrative services. The City owns and operates water and sewer utilities, a golf course (currently operated by lessee), a museum, three libraries, a parking enterprise, a cemetery and an aquatic facility. The City operates an ambulance service and police and fire dispatch centers that are jointly funded by local entities. The City's financial statements include all of these operations that are controlled by or are dependent on the City.

For financial reporting purposes, in conformance with GASB 61, the City of Bellingham considered for inclusion all governmental activities, organizations and functions for which the City is financially accountable. Relevant criteria for including an organization as a component unit within the City's reporting entity are delineated in GASB Statement No. 61 and include considerations such as the following:

- Whether or not the City appoints a voting majority of the organization's governing body
- The City is able to impose its will on that organization
- There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City
- The organization is fiscally dependent on the City

The accompanying financial statements present the City and its component units, entities for which the City is considered financially accountable. The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City and do not meet the criteria for blending as laid out in paragraph eight of GASB No. 61.

Blended component unit

The Bellingham Transportation Benefit District (TBD), established in 2010, is included in the accompanying financial statements as a blended component unit. The TBD is a separate Washington Quasi-municipal Corporation created under RCW 35.21.225 and Bellingham Municipal Ordinance No. 2010-07-040. Consistent with RCW 36.73.020(3), the governing board of the TBD shall be the Bellingham City Council acting in an ex officio and independent capacity. The TBD Board shall have the authority to exercise the statutory power set forth in chapter 36.73 RCW. The TBD is funded by a voter approved 0.2% sales and use tax increase to be used for funding transportation improvements defined by RCW 36.73.015 including street preservation and maintenance, transit service, and non-motorized transportation projects. The City, through an interlocal agreement with the TBD, provides administrative services and financial management. Given that the TBD's governing body is substantively the same as the governing body of the City, and the City has operational responsibility of the TBD, the TBD meets the criterion of a blended component unit. Accordingly, the TBD is reported as part of the non-major special revenue fund in the City's combining and individual fund statements.

Discretely presented component units

The Bellingham-Whatcom Public Facilities District (PFD), established in 2002, is a separate Washington Municipal Corporation and an independent taxing authority created under RCW 35.57, Bellingham Municipal Code Chapter 2.94 and Whatcom County Code Chapter 1.17. The PFD was created in order to receive a state sales tax rebate for the purpose of creating a regional center. The Board of Directors consists of seven members, appointed in accordance with RCW 35.57 and approved by Bellingham City Council. The City, through an interlocal agreement with the PFD, provides administrative services and financial management.

The City issued bonds on behalf of the PFD in 2004 and is contingently liable for the 2007 bonds issued by the PFD. Payments for the PFD debt are expected to be made from PFD tax revenues. In the event that these revenues are insufficient to make any required payments, the City may be liable for the required debt payments on both bonds. See note IV-H for outstanding PFD debt at year end. Given that the PFD is legally separate from the City, the PFD's board is appointed by the City, the City can impose its will on the PFD, and none of the criteria in GASB No. 61 paragraph eight apply to the PFD, it qualifies as a discrete component unit.

The Bellingham Public Development Authority (BPDA), established in 2008, is a separate Washington municipal corporation under RCW 35.21.730 through 35.21.755. The BPDA was created to undertake redevelopment projects throughout the City with a special focus on the City's downtown, Old Town, and waterfront areas. The BPDA is expected to work in partnership with other public entities, nonprofits, and the private sector on these projects. The Board of Directors consists of seven members appointed by the Mayor and confirmed by the City Council. The independent Board is exclusively responsible for its own debts, obligations, and liabilities. All liabilities incurred by the Authority shall be satisfied exclusively from the assets, credits, and properties of the Authority and no creditor shall have the right of action against the City of Bellingham. The City, through an interlocal agreement with the BPDA, provides administrative services and financial management. Given that the BPDA is legally separate from the City, the BPDA's board is appointed by the City, the City can impose its will on the BPDA, and none of the criteria in GASB No. 61 paragraph eight apply to the BPDA, it qualifies as a discrete component unit.

The discretely presented component units are reported in the government-wide basic financial statements.

I-B Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Fiduciary funds are not resources that are available to the City and are not included in the government-wide statements.

The statement of activities shows the degree that the direct expenses of a given function or segments 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 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*.

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statement. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the basic financial statements.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Beginning in 2011, street maintenance is reported in the general fund. Beginning in 2012, eleven additional former special revenue funds are being reported in the general fund to comply with GASB Statement No. 54. These additional former special revenue funds, now referred to as *general fund subsidiaries,* are budgeted separately from the *general fund* and have individual budget and actual statements included in the combining and individual fund statements. See note III-C for changes in accounting methods.

The government reports the following major proprietary funds:

The *water and wastewater funds* account for the activities of the City's two largest utilities. Their revenues are received from the sales of materials, supplies, and services. Expenses are for maintenance and extension of water and sewer service systems. These funds also reflect the accounting of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *surface and stormwater fund* accounts for the activities of the utility. The primary source of revenue is a service charge for impervious surface runoff. Expenses are for construction, improvements and maintenance of the City's stormwater facilities, updates of the stormwater master plan, and acquisition of additional wetland and open space.

The *solid waste fund* accounts for litter compliance expenses and the operations of the Clean Green site where City and County residents bring grass, shrubs, and tree trimmings. This fund also accounts for remediation costs of cleaning up several landfill sites. The City has issued two general obligation bonds for the City's share of remediation costs to be repaid primarily by net revenues from the solid waste fund. These revenues are generated principally by tax revenues paid by the City's garbage contractor. Although the *solid waste fund* is not required to be included as a major proprietary fund, City management has elected to present them in the basic financial statements.

The *medic one fund* accounts for countywide ambulance service governed by an interlocal agreement between the City and Whatcom County. Revenues are generated by fees for service and are supplemented by a voter approved sales tax and by contributions from the City and County.

Additionally, the government reports the following fund types:

Special revenue funds account for revenues derived from specific taxes, grants or other sources. They are legally restricted to financing specific activities of the City.

General fund subsidiaries are funds that are budgeted and accounted for similarly to special revenue funds, but are combined with the general fund for balance sheet and operating statement reporting purposes. A separate budget and actual statement is reported in the combining and individual fund section for each of the subsidiaries.

Debt service funds account for the resources accumulated and payments made for principal and interest and related costs on long-term general obligation debt of governmental funds.

Capital projects funds account for financial resources that are designated for the acquisition or construction of general government capital improvements.

Permanent funds account for resources that are restricted to the extent that only earnings, not principal, may be used in support of an established purpose. Activities of the fund must benefit the government or its citizenry.

Enterprise funds account for activities that operate in a manner similar to private business enterprises where the intent is to provide goods or services to the general public and be reimbursed primarily through user charges.

Internal service funds account for fleet administration, purchasing and materials, facilities administration, telecommunications, claims and litigation and employee benefits. These funds provide services to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. Because these services benefit governmental operations more than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Pension trust funds account for the activities of the police pension funds and the firefighter's pension funds, which accumulate resources for pension benefit payments and post-employment health care benefits. They are accounted for in essentially the same manner as enterprise funds because of the need for determining periodic income of the trust.

Agency funds are custodial in nature and represent assets held in a trustee or agency capacity for others. These funds do not report results of operation. Agency funds consist of the guaranty deposit and school impact fee funds.

I-C Measurement focus, basis of accounting and financial statement presentation

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

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 trust 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. Agency funds report only assets and liabilities and have no measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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 all revenues except for grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered available if they can be collected within 90 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 made. Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

Property taxes, franchise taxes, licenses and interest associated with 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 assessments 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 measurable and available only when cash is received by the City.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charge back of services, such as utilities or vehicle maintenance and charges for central administration. The City allocates indirect cost 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. These charges are included in direct program expenses. Internal service fund activity is also eliminated to avoid duplicate activity in making the transition from the fund level financial statements to the government-wide financial statements.

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

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 principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of latecomers' fees intended to recover the cost of connecting new customers to the existing system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's usual procedure to spend restricted funds first and then unrestricted funds.

I-D Assets, liabilities and net position or equity

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments.

Investments for the City as well as for its component units are reported at fair value, based on the fair market value at fiscal year-end. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. Investments are reported separately on the balance sheet. For purposes of the statement of cash flows, the City considers cash on hand and the state investment pools to be cash equivalents. Excess cash balances of all City funds are pooled and invested. The annual change in investment balances is shown net of "Proceeds from sales and maturity of investment securities" and "Purchase of investments" on the statement of cash flows.

Interest income is distributed monthly to the funds based on the average daily fund balance. Interest from the following funds is assigned to the general fund:

- Library gift
- HUD grant funds
- Special assessment (LID) funds

- Guaranty deposit
- Clearing funds

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "interfund loans receivable/interfund loans payable." All other outstanding balances between funds are referred to as "due to/from other funds" in the basic and combining statements. Residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property tax is recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized when received. There is no allowance for uncollectible taxes. The City considers delinquent taxes fully collectible.

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. Receivables have been recorded net of an allowance for uncollectible amounts. Allowances for uncollectible amounts are calculated as either a write-off of bad debt expense, or a write-down for reduction in service charge due to contract limit.

Interest receivable consists of amounts earned, but not received, on investments and notes and contracts at the end of the year. Notes and contracts receivable consists of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Unearned assessments consist of unbilled special assessments that are liens against the property benefited.

Inventories and prepaid items

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased.

Inventories in proprietary funds are valued on a cost basis using the weighted average method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital and improvements are capitalized as projects are constructed. Street infrastructure assets are entered into the system on a "network" basis since these assets consist of several different components of road and street construction. The project plans maintained in the engineering division of public works provide details regarding these components.

Capital assets are defined by the City as assets with an estimated useful life in excess of one year and an individual cost for each asset category in excess of the following amounts:

Asset category	Asset threshold
Land	Capitalize All
Fleet-replacement equipment	$ 5,000
Machinery and equipment	$ 10,000
Network/communication/lectonic systems equipment	$ 25,000
Land improvements, infrastructure, buildings and improvements, intangibles, improvements other than buildings, capital leases, leasehold improvements	$ 50,000

All property, plant, and equipment of governmental or business-type activities are depreciated using the straight line method with the following estimated useful lives:

Asset category	Useful life (years)
Buildings	50
Improvements other than buildings	
Infrastructure	20-40
Leasehold improvements	10
Other improvements	5-50
Software	7
Machinery and equipment	
Information technology equipment	4
Equipment	3-20

The City has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. These assets are identified in the asset system as partially grant funded for tracking purposes in the event of a sale or surplus of the item.

Compensated absences

City policy permits employees to accumulate unused vacation leave. Vacation leave is earned at rates established in individual bargaining unit agreements. Each employee may accumulate up to double their established annual accrual rate. All unused vacation is payable upon termination of employment. Upon retiring, contractual limitations have been imposed on PERS employees to limit vacation payout to a maximum of 240 hours. Vacation liabilities are recorded at year-end in full accrual funds and in the government-wide statements.

City policy permits employees to accumulate unused sick leave. Sick leave is earned at rates established in individual bargaining unit agreements. Each employee may accumulate a maximum of 1040 hours. Unused sick leave is payable upon termination only to LEOFF II employees. LEOFF II employees may cash out up to 150 hours of their accumulated sick leave balance upon retirement. The City maintains a liability for future sick leave cash-out payments. Currently, both the Teamsters 231 and AFSCME 114 bargaining groups are also eligible for an optional sick leave cash out program. Employees with accumulated banks of at least 50% of the maximum have the option of cashing out 24 to 48 hours of sick leave accumulated and not used in the twelve-months prior to December 15 of each year. Employee banks will be reduced by the number of hours cashed out. If an employee's bank is at 960 hours or more, no reduction to their bank balance is made for cashed out hours.

Long-term obligations

In 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 statements of net position. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as amortizable bond costs and amortized over the term of the related 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. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted assets

Enterprise funds have accounts that contain resources for construction and debt services. Certain proceeds of the water and sewer funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position in compliance with applicable bond covenants. The amount of these restricted assets is reported in the long-term debt note.

Contribution of capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets (e.g. developers), and grants or outside contributions of resources restricted to capital acquisition and construction.

Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Comparative date/reclassifications

Comparative data for the prior year have been presented throughout the financial statements in order to provide an understanding of the changes in the financial position and results of operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

Fund balance

The City of Bellingham is a first class charter City in the state of Washington organized with a council-mayor form of government. City management is led by the elected Mayor in a strong-Mayor, weak-Council form of government. The Mayor and the City Council are the bodies with the "highest level of decision-making authority". In accordance with GASB Statement 54, governmental fund balance reporting and governmental fund type definitions, classifies governmental fund balance as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The City has permanent funds, prepaid items, and inventories within the non-spendable fund balance category.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed or constrained due to constitutional provisions or enabling legislation. The City's restricted fund balance includes HUD grant money restricted for federal projects, the spendable portion

of permanent funds, debt service, and special revenue funds. Special revenue fund balance, purpose and funding sources can be found in the combining and individual fund statements.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. In order to commit funds to a specific project or activity the City Council, the highest level of decision making authority, must take the formal action of passing an ordinance. An ordinance becomes part of the City's Municipal Code and is the highest level action the Council can pass. An ordinance constitutes a binding constraint on the resources affected. In order to modify or rescind an ordinance the Council must amend or repeal the Municipal Code by adopting another ordinance. Items are committed by a majority vote of the City Council except when there has been a veto by the Mayor which then requires a super majority vote of the City Council. The general fund has a sum committed for estimated legal environmental costs.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Items are assigned by the Mayor or the Mayor's designee within City funds and within City departments. Fund balance may be assigned by the Finance Director or Budget Manager. The Financial Management Guidelines written and endorsed by the Bellingham City Council with Resolution No. 2010-17 establishes the authority to assign fund balance amounts. The City has assigned fund balance for donations to public safety.

Unassigned – the residual classification for the general fund, which also reflects negative residual amounts in other funds.

Spending prioritization in using available resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spent first. When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

Fund reserve goals

The City has Financial Management Guidelines that sets reserve goals and reserve minimums for selected City funds including the general fund, water, wastewater, surface and stormwater, parking, medic one, fleet, and the health benefits funds. This document is available on the City's website at:

http://www.cob.org/documents/finance/publications/2010-financial-management-guidelines.pdf

When a fund falls below its minimum reserve level as established in the publication approved above, the Mayor is required to present to Council a financial plan, within 60-days, that will restore the fund reserve balance to at least it's minimum level within the shortest time period feasible, not to exceed three budget years.

Meeting the minimum reserve goal is integral to the budget process and is reported in the Adopted Budget document. The budget department tracks the reserve amounts throughout the year. At year end the actual ending reserves are reviewed and adjustments are made if required including turning down requests for re-appropriations that would reduce ending reserves below the minimum levels.

Net position

In accordance with GASB Statement 63, proprietary, fiduciary, and government-wide financial statements shall report net position. Concepts Statement 4 identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement 34. The elements of net position are similar to those of net assets.

Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components: net investment in capital assets, restricted, and unrestricted.

NOTE II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

II-A Budgetary information

Annual appropriated budgets are adopted for the general, special revenue and debt service funds on a basis consistent with generally accepted accounting principles (GAAP). Budgets are not adopted for the special assessment debt sub-funds of the debt service fund type. Capital project funds adopt budgets on an individual project basis. Proprietary and fiduciary funds are budgeted for management purposes only. National Council on Governmental Accounting Statement No. 1 requires financial statements presenting budgetary comparisons for governmental fund types only.

Annual appropriated budgets are adopted at the fund level and legal budgetary control is established at the fund level. Legal budgets are adopted for the 12 funds consolidated with the general fund for GAAP reporting. Budget to actual schedules for these consolidated funds are included in the combining statements. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions by department, activity and object class; however, this level of budgetary monitoring is not legally mandated. Appropriations for all funds lapse at year-end.

The City's budget procedures are mandated by RCW 35.33. On or before November 1, the Mayor submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months. The budget is balanced with revenue estimates made by the Budget Manager. Council conducts public hearings on the proposed budget on or before the first Monday in December. The Council makes its adjustments to the proposed budget and adopts by ordinance, a final balanced budget by fund, no later than December 31. Within 30 days of adoption, the final budget is available to the public.

The Mayor is authorized to transfer budgeted amounts between accounts. However, any revisions that alter the total expenditures of a fund must be approved by the City Council. The City Council may determine that it is in the best interest of the City to increase or decrease the appropriation for a particular fund. It must do so by ordinance approved by a simple majority after first holding public meetings providing the public the opportunity to speak.

Encumbrances are committed amounts for goods and services ordered or contracted. Encumbrances do not constitute expenditures or liabilities. The City reappropriates current year encumbrances into the following year as an amendment to the budget. Encumbrances outstanding as of December 31, 2013 were reappropriated by Ordinance 2014-04-018.

Encumbrances outstanding as of December 31, 2013

Fund	Amount
General	$ 3,497,460
Water	506,220
Wastewater	8,145,306
Storm & surface water	944,808
Solid waste	65,147
Non-major	1,674,348
Total encumbrances	$ 14,833,289

II-B Deficit fund equity

As of December 31, 2013, the following funds reported deficits in fund balance or fund equity:

Fund 440 – The solid waste fund has a deficit net position of $6.1 million. This deficit is due to 1) In 2005 the City issued bonds totaling $8.7 million to finance (a) the environmental cleanup of the Holly Street landfill, (b) the City's share of the environmental cleanup of the Cornwall Avenue and Central Waterfront landfill sites by the Port of Bellingham, and (c) the acquisition of the Colony Wharf property adjacent to the Roeder Avenue landfill. In 2006, the solid waste fund sold Colony Wharf to the general fund, so it no longer has the asset, but still has a liability for the debt. The remediation expenses did not increase assets. 2) Per GASB 49, the City has a net pollution remediation liability in the solid waste fund of $7.9 million at December 31, 2013 (see note V-C). The utility tax received by the solid waste fund was increased from 7% to 11.5% effective May 1, 2005, in order to accommodate the debt service requirements for the projects funded from bond proceeds. The deficit will be reduced as the bonds payable liability is reduced and also as the pollution remediation liability is reduced.

Fund 530 – The facilities administration fund has a deficit net position of $3.9 million. This deficit is due to issuing qualified energy conservation bonds in 2011 to finance noncapital improvements in over 20 City owned municipal building. These improvement expenses did not increase assets. The deficit will be eliminated when the bonds mature in 2025. These are term bonds; principal is due in full on the maturity date. Fund 530 has a long-term bond payable liability of $6.5 million at December 31, 2013.

II-C Excess of expenditures over appropriations

As of December 31, 2013, there has been no material violation of finance related legal or contractual provisions in any City governmental fund.

NOTE III. ACCOUNTING CHANGES

III-A New and closed funds

Fund 181 - ***Low income housing*** - In 2013 the City created a new fund to account for the voter approved seven-year, $21 million dollar levy to provide housing assistance for homeless and low income citizens.

Fund 371 - ***Waterfront construction #1*** - In 2013 the City created a new fund to account for Local Infrastructure Financing Tool (LIFT) revenue received from the state. The City will receive this funding for up to twenty-five years, and the funds are to be spent on public infrastructure projects within the Revenue Development Area (RDA) - the Waterfront District.

Fund 132 - ***Squalicum park/Olympic*** - In 2013 the City made final disbursement of settlement proceeds received from Olympic Pipeline in 2004. All funding was expended and the fund was closed.

Fund 135 - ***Little Squalicum - Oeser settlement*** - In 2013 the City made final disbursement of settlement proceeds received from the Oeser Company in 2006. All funding was expended and the fund was closed.

Fund 270 - ***#1106 Bakerview Rd*** - In 2013 the City made the final debt service payment on the 1996 Local Improvement District No. 1106 bonds and the fund was closed. All remaining funding received for this LID will be accounted for in fund 245 - LID guaranty fund.

III-B Special Items

In 2008, the City of Bellingham Parking Service Fund purchased property located at 1100 Cornwall Avenue for the future site of a parking structure. Management of this property was delegated to the Bellingham Public Development Authority (BPDA), which sold the property in 2012. Agreement between the City and the BPDA provided that the priority for disposition of sale proceeds was to reimburse the City for the City's original direct acquisition and ownership costs for the property and for other City expenditures related to the property. In 2013, the sale proceeds of $1,176,877 were returned to the Parking Fund.

III-C Implementation of new GASB pronouncements

Effective January 1, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* GASB Statement No. 65 amends or supersedes the accounting and financial reporting guidance for certain items previously reported as assets or liabilities. For instance, voluntary nonexchange transactions where resources are received before time requirements are met, but after all other eligibility requirements have been met, should be reported as a deferred inflow of resources by the recipient. In the City's case, this change mandated by GASB No. 65 led to the reporting of the advanced funded Office of Public Defense grant as a deferred inflow of resources. The Office of Public Defense grant funds period of availability begins in 2014 but the money was received in advance by the City in late 2013.

Additionally, GASB No. 65, changed the accounting treatment and presentation of debt issuance costs. Under GASB No. 65 debt issuance costs, except for any portion related to prepaid insurance costs, is recognized as an expense in the period incurred. As stated in GASB No. 62 ¶ 74, "the issuance of a new pronouncement by the GASB…that creates a new accounting principle…or rejects a specific principle *may require* a government to adopt a change in accounting principle." Accordingly, due to this change in accounting principle, the City expensed the outstanding bond issuance costs retroactively and presented the change as an adjustment to beginning net position. The cumulative effect of expensing the remaining bond issue costs on net position on the Statement of Activities was to reduce governmental activities by $221,087, reduce business-type activities by $781,892, and reduce the Public Facilities District discrete component unit by $135,791. The effect of adopting the new accounting principle on

the change in net position in the current period of change includes expensing all $98,321 of debt issue costs associated with the 2013 water and sewer revenue bonds issue in August 2013.

Finally, with the issuance of GASB No. 65 the use of the term *deferred* was limited to items reported as deferred outflows of resources or deferred inflows of resources.

GASB No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34* also became effective in the City's current fiscal period. After applying the updated criterion laid out in GASB No. 61 related to analyzing the relationship between the City and its potential component units, ultimately the same conclusions and presentation results. The Transportation Benefit District (TBD) meets the criterion of a blended component unit and the Bellingham-Whatcom Public Facilities District (PFD) and the Bellingham Public Development Authority (BPDA) both meet the criteria of discrete component units. See note one for more details on the formation and activities of these components units and the key criterion that led to the classification as a blended component unit or discrete component units respectively.

NOTE IV. DETAILED NOTES ON ALL FUNDS

IV-A Deposits and investments

Deposits

The City's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The FDIC insures the City's deposits up to $250,000; the PDPC covers amounts over $250,000. Numbers in section IV-A are obtained from the year-end GASB 31 report provided by the City's securities custodian and primary banker, U.S. Bank.

Investments

All municipal corporations in Washington State, including the City of Bellingham, are empowered by statute to invest in the following securities (the enabling legislation is contained in RCW 36.29.020, as amended and as limited by RCW 39.58.080, as amended, RCW's 35.39.030, 39.59.020, 39.59.030, 39.60.010, 43.84.080 and 43.250):

- Investment deposits including certificates of deposit, with qualified public depositories as defined in Chapter 39.58 RCW.
- Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States (such as the Government National Mortgage Association).
- Obligations of government sponsored corporations which are eligible as collateral for advances to member banks, as determined by the Board of Governors of the Federal Reserve System. These include but are not limited to Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes, debentures and guaranteed certificates of participation.
- Bankers' acceptance purchased on the secondary market.
- Repurchase agreements, if the transaction is structured so that the City of Bellingham obtains control over the underlying securities.
- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- Washington State Local Government Investment Pool.
- Other investments authorized by law.

These investment types are the same options available to all funds, fund types, and component units.

The State Treasurer's Office administers the Washington State Local Government Investment Pool (LGIP) authorized under Chapter 43.250 RCW. The LGIP operates in a manner consistent with the SEC Rule 2a-7. In its management of LGIP, the State Treasurer adheres to the principles appropriate for the prudent investment of public funds. In priority order, they are the safety of principal, the assurance of sufficient liquidity to meet cash flow demands and attainment of the highest possible yield within the constraints of the first two goals.

All investments are valued at fair value as of December 31, 2013. The fair value of the position in the LGIP is the same as the value of the pool shares. All of the City's investments are defined as being insured or registered in the name of the City, or held by the City or by its agent in the City's name.

The LGIP is reported on the balance sheet as cash and cash equivalents. Investments in the LGIP and other investments with a purchase life of less than one year are reported at cost. Management intends to hold securities, bonds and certificates of deposit until maturity.

Fair value of deposits and investments at December 31, 2013

		Component Units		
	City	Public Facilities District	Public Development Authority	Total
Cash and cash equivalents				
Cash in bank	13,055,631	123,771	6,220	13,185,622
Petty cash	41,410	-	-	41,410
Local Government Investment Pool	14,750,010	139,393	7,006	14,896,409
Total cash and cash equivalents	27,847,051	263,164	13,226	28,123,441
Investments at fair value				
Federal Agency Coupon Securities	114,926,790	1,100,556	55,309	116,082,655
Municipal Bonds	25,075,050	240,122	12,068	25,327,240
Total investments	140,001,840	1,340,678	67,377	141,409,895
Total deposits and investments	167,848,891	1,603,842	80,603	169,533,336

Interest rate risk - To minimize risk of loss arising from interest rate fluctuations, the City purchases a combination of short and longer term investments and staggers their maturities. City Investment Policy requires that unless matched to a specific cash flow (for Reserve and CIP funds); the City will not directly invest in securities maturing more than five years from the date of purchase. The City is in compliance with this policy. At year-end, December 31, 2013 the overall average maturity for all of the City's investments was 2.684 years. The average maturity of the basic investment categories of the City are as follows:

Average maturity of the basic investment categories

	Average maturity in years
U.S. Government Agencies	3.171
Municipal Bonds	2.031
Rule 2a-7 like pools per GASB 31	0.000
Weighted average maturity of all investments	2.684

Credit risk - Per the City's Investment Policy, "Safety of principal is the foremost objective of the City of Bellingham. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses in individual securities do not exceed the income generated from the remainder of the portfolio." The City's policy further states, "Investments shall be made with judgment and care—under circumstances then prevailing—which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Per RCW 39.59.020, state law requires that the City only invest in bonds which at the time of purchase have one of the three highest credit ratings of a nationally recognized rating agency. Per RCW 39.59.030, state law requires that the

City only invest in mutual funds with portfolios consisting of only United States government bonds or United States government bonds issued by federal agencies with average maturities of less than four years and possessing one of the four highest credit ratings of a nationally recognized rating agency. The City's investments and deposit accounts are in compliance with its own investment policy and all applicable state laws including RCW 36.29.020, as amended, and as limited by RCW 39.58.080, as amended, RCW's 35.39.030, 39.59.020, 39.59.030, 39.60.010, 43.84.808 and 43.250.

Concentration of credit risk - Per the City's Investment Policy, the City is directed to "diversify its investments by security type and institution. With the exception of U.S. Treasury securities and the State Investment Pool, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution." The City's investments in municipal bonds at December 31, 2013 did not meet the diversification constraints as recommended in the City's Investment Policy because 52.2% of the City's investments were through DA Davidson. The City is working towards reallocating investments amongst other institutions in order to remain in line with the established policy. All individual investments did meet the high credit ratings standards policy. Finally, as required by GASB 40 paragraph 11 the City acknowledges that there is a concentration of credit risk in the following five issuers. Investments in any one issuer that represent five percent or more of total investments are disclosed in the table below:

Investments by Issuer	Relative % allocation of total investments	Ending Balance	Bond Rating
Federal National Mortgage Association	34.932%	54,601,215	Aaa
Federal Home Loan Mortgage	16.047%	25,083,210	Aaa
Federal Home Loan Bank	14.327%	22,394,204	Aaa
Federal Farm Credit Bank	8.959%	14,004,026	Aaa
King County School Dist. 414	5.820%	9,096,680	Aa1

Custodial credit risk - Custodial credit risk is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. For this reason per the City's Investment Policy, "All security transactions, including collateral for repurchase agreements, entered into by the City of Bellingham shall be conducted on a delivery-verses-payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director." The City's securities custodian is U.S. Bank Safe Keeping. The City is in compliance with its DVP and safe keeping policies.

Foreign currency risk - The City does not have any investments in foreign currency and accordingly is not exposed to foreign currency risk.

IV-B Receivables

Receivables as of year-end for the City's individual major and nonmajor funds, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables as of December 31, 2013

Governmental activities	General	Nonmajor governmental	Internal service	Total
Interest	$ -	$ 1,037	$ 44,615	$ 45,652
Taxes	322,864	42,984	-	365,848
Accounts	13,779,188	148,109	5,907	13,933,204
Special assessments	-	20,059	-	20,059
Notes and contracts receivable	326,483	13,280,220	-	13,606,703
Due from other governments	631,971	490,941	-	1,122,912
Due from component unit	-	9,235,000	-	9,235,000
Gross receivables	15,060,506	23,218,350	50,522	38,329,378
Less: allow. for uncollect.	(12,028,608)	-	-	(12,028,608)
Total governmental	$ 3,031,898	$ 23,218,350	$ 50,522	$26,300,770

Business-type activities	Water	Waste water	Storm & surface water	Solid waste	Medic one	Nonmajor enterprise	Total
Interest	$ 32,820	$ 62,092	$ 10,645	$ 16,371	$ 1,850	$ 13,777	$ 137,555
Accounts	1,273,002	1,112,984	536,195	9,301	613,574	1,923,462	5,468,518
Due from other government	9,490	52	138,249	2,139	-	-	149,930
Gross receivables	1,315,312	1,175,128	685,089	27,811	615,424	1,937,239	5,756,003
Less: allow. for uncollect.	-	-	-	-	(262,071)	(1,429,336)	(1,691,407)
Total business-type	$ 1,315,312	$ 1,175,128	$ 685,089	$ 27,811	$ 353,353	$ 507,903	$4,064,596

Fiduciary funds	Fire Pension	Police Pension	Guaranty Deposit	Total
Interest	$ 15,281	$ 12,371		$ 27,652
Taxes	34,822	-		34,822
Accounts	2,388	-	2,804	5,192
Total fiduciary	$ 52,491	$ 12,371	$ 2,804	$ 67,666

As of December 31, 2013, $9,975 of the special assessment receivable is delinquent.

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Special assessments not yet due and notes and contracts receivable represent long-term debt agreements of the City. Taxes receivable are comprised of property taxes combined with utility taxes.

Unearned revenue reported in the governmental funds as of December 31, 2013					
Unearned revenue	General	Special revenue	Debt service	Permanent	Total
Delinquent property taxes receivable	$ 322,864	$ 35,541	$ -	$ 7,443	$ 365,848
Fines/forfeitures receivable	1,134,474	-	-	-	1,134,474
Special assessments not yet due	-	-	298,761	-	298,761
Total unearned revenue for governmental funds	$ 1,457,338	$ 35,541	$ 298,761	$ 7,443	$ 1,799,083

IV-C Property taxes

RCW 84.55 is the governing legislation for property tax in the State of Washington. In 1997, the RCW was modified by Referendum No. 47 which allows the "banking" of unused levy capacity. The difference between the levy increase and the allowed maximum accumulates in a "bank." Any, or all, of this bank may be added to future levies. For the 2013 tax levy, the City used all of its banked levy capacity.

In November 2001, the state voters approved Initiative 747, again modifying the RCW, reducing the maximum levy increase to 1%, or the Implicit Price Deflator (IPD), whichever is less. The levy limit applies to a taxing district's levy amount, and not to increases in the assessed value of individual properties. The limit is based on the population of the district as well as the district's need to increase revenue. The law restricts taxing districts from levying, in any year, more than a one-percent increase in its regular, non-voted levy over the highest amount that could have been levied since 1985. Because the levy limit does not include new construction, annexations, re-evaluations and voter approved excess levies, a taxing district's actual revenue increase may be greater than one percent. The IPD for 2013 was 1.295%. Council authorized a 1% increase for 2013.

The City may levy up to $3.60 per $1,000 of assessed valuation for general governmental services, subject to two limitations:

- The 1% limitation may be exceeded by a "lid lift" if the levy is below the $3.60 limit and is approved by a simple majority of the voters.
- The Washington State Constitution limits total regular property taxes to 1% of assessed valuation or $10 per $1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

Special levies approved by the voters are not subject to the above limitations.

Property tax levies 2013				
Assessment	Type	Valuation	Rate/$1,000	Tax
General fund		$ 8,348,628,061	$ 1.6088	$ 13,431,658
Fire pension		8,348,628,061	0.2250	1,878,441
New What RDA LIFT		8,348,628,061	0.0029	24,494
Total councilmatic			1.8367	15,334,593
Affordable Housing	voter approved	8,348,628,061	0.3593	3,000,000
Greenways III - parks	voter approved	8,348,628,061	0.5394	4,503,417
Total voter approved			0.8987	7,503,417
Total assessments			$ 2.7354	$ 22,838,010

The 2006 Legislature passed Engrossed Second Substitute House Bill (E2SHB) 2673 creating the Local Infrastructure Financing Tool (LIFT) Demonstration Program. Bellingham was one-of-three selected local governments to utilize this form of tax increment financing to pay for public improvements within the Revenue Development Area (RDA). Incremental increases in revenue from local sales/use tax and property taxes generated within the RDA must be used to repay bonds or "pay as you go" financing of public infrastructure improvements that encourage economic development in the RDA. Incremental revenue increases within the RDA and revenue from other local public sources will be used to match state money, which will be distributed through a local sales/use tax that is credited against the state's sales/use tax.

Taxes are levied annually in November for the next fiscal year beginning January 1. The total amount of taxes levied becomes available in February of the year for which they are due. Annually the Assessor establishes assessed values at 100% of fair market value. Tax bills are mailed on February 15 and taxes are due in two equal installments on April 30 and October 31. The Whatcom County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed monthly on cumulative balances less than $10,000, or weekly on balances exceeding $10,000.

In November 2012, City of Bellingham voters approved a property tax levy lid lift. Beginning in 2013, the levy will provide $3 million a year for Low Income Housing Initiatives.

IV-D Capital assets

Capital asset activity for the year ended December 31, 2013 is summarized as follows:

Primary government

Governmental activities	Beginning balance 1/1/2013	Additions	Reductions	Ending balance 12/31/2013
Capital assets not being depreciated:				
Land	$ 131,577,713	$ 803,817	$ -	$ 132,381,530
Improvements	17,614,900	-	-	17,614,900
Construction in progress	15,553,243	10,482,410	(8,297,260)	17,738,393
Total capital assets, not being depreciated	164,745,856	11,286,227	(8,297,260)	167,734,823
Capital assets being depreciated:				
Buildings	46,798,750	118,654	-	46,917,404
Improvements other than buildings	220,845,161	13,205,747	-	234,050,908
Machinery and equipment	23,935,676	1,265,488	(593,657)	24,607,507
Total capital assets being depreciated	291,579,587	14,589,889	(593,657)	305,575,819
Less accumulated depreciation for:				
Buildings	(15,944,343)	(871,653)	-	(16,815,996)
Improvements other than buildings	(93,091,044)	(6,867,278)	-	(99,958,322)
Machinery and equipment	(12,022,472)	(1,795,488)	495,492	(13,322,468)
Total accumulated depreciation	(121,057,859)	(9,534,419)	495,492	(130,096,786)
Total capital assets, being depreciated, net	170,521,728	5,055,470	(98,165)	175,479,033
Governmental activities capital assets, net	$ 335,267,584	$ 16,341,697	$ (8,395,425)	$ 343,213,856

Business-type activities	Beginning balance 1/1/2013	Additions	Reductions	Ending balance 12/31/2013
Capital assets not depreciated:				
Land	$ 41,561,862	$ 2,088,934	$ -	$ 43,650,796
Construction in progress	23,342,118	38,524,286	(2,161,028)	59,705,376
Total capital assets, not being depreciated	64,903,980	40,613,220	(2,161,028)	103,356,172
Capital assets depreciated:				
Buildings	94,596,436	-	-	94,596,436
Improvements other than buildings	209,445,787	5,762,543	(40,354)	215,167,976
Machinery and equipment	7,003,473	66,084	-	7,069,557
Total capital assets, being depreciated	311,045,696	5,828,627	(40,354)	316,833,969
Less accumulated depreciation for:				
Buildings	(48,300,508)	(1,707,251)	-	(50,007,759)
Improvements other than buildings	(85,139,273)	(4,151,646)	40,354	(89,250,565)
Machinery and equipment	(3,557,852)	(397,546)	-	(3,955,398)
Total accumulated depreciation	(136,997,633)	(6,256,443)	40,354	(143,213,722)
Total capital assets, being depreciated, net	174,048,063	(427,816)	-	173,620,247
Business-type activities capital assets, net	$ 238,952,043	$ 40,185,404	$ (2,161,028)	$ 276,976,419

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities	
General governmental	$ 437,975
Public safety	448,359
Public works	5,876,269
Cultural and recreational	1,188,565
Economic environment	65,986
Internal service fund capital assets are charged to various functions based on the usage of the assets	1,517,265
Total depreciation expense - governmental activities	$ 9,534,419

Business-type activities	
Cemetery	$ 6,565
Water	2,256,463
Wastewater	2,817,527
Storm and surface water	887,959
Solid waste	21,374
Golf	31,684
Parking	99,516
Medic one	118,272
Development services	17,083
Total depreciation expense - business-type activities	$ 6,256,443

Capital asset activity for the year ended December 31, 2013 is summarized as follows:

Discretely presented components

Bellingham-Whatcom Public Facility District	Beginning balance 1/1/2013	Additions	Reductions	Ending balance 12/31/2013
Capital assets not depreciated:				
Land	$ 1,329,860	$ -	$ -	$ 1,329,860
Total capital assets, not being depreciated	1,329,860	-	-	1,329,860
Capital assets being depreciated:				
Buildings	19,094,610	-	-	19,094,610
Improvements other than buildings	9,070,078	-	-	9,070,078
Total capital assets, being depreciated	28,164,688	-	-	28,164,688
Less accumulated depreciation for:				
Buildings	(3,455,614)	(474,148)	-	(3,929,762)
Improvements other than buildings	(1,220,705)	(276,854)	-	(1,497,559)
Total accumulated depreciation	(4,676,319)	(751,002)	-	(5,427,321)
Total capital assets being depreciated, net	23,488,369	(751,002)	-	22,737,367
Public Facilities District capital assets, net	$ 24,818,229	$ (751,002)	$ -	$ 24,067,227

Public Development Authority	Beginning balance 1/1/2013	Additions	Reductions	Ending balance 12/31/2013
Capital assets not depreciated:				
Land	$ 1,300	$ -	$ -	$ 1,300
Total assets not depreciated	1,300	-	-	1,300
Public Development Authority capital assets,	$ 1,300	$ -	$ -	$ 1,300

IV-E Interfund receivables, payables and transfers

Loans between funds are classified as interfund loans receivable and payable on the statement of net position. Loans between funds must be authorized by City Council. All loans are authorized with specific repayment terms at a reasonable interest rate.

Due to other funds and due from other funds result from goods issued, work performed, or services rendered to or for the benefit of another fund of the same government when cash is not immediately moved between the funds. The following schedule shows the interfund loans receivables and loans payables as well as the due to and due from other funds balances. All interfund loans and due to and from balances are expected to be repaid within a year unless other terms are specifically established as noted below.

Interfund balances at December 31, 2013

	Interfund loans receivable	Interfund loans payable	Due from other funds	Due to other funds
General	$ -	$ (4,527,796)	$ 124,614	$ 21,031
Nonmajor governmental	3,232,022	-	559	100,100
Water	-	(986,646)	1,031	39,354
Surface and storm	-	-	39,354	2,189
Medic one	-	-	-	2,325
Internal service	986,646	-	-	559
Fiduciary	1,295,774	-	-	-
Total government-wide	$ 5,514,442	$ (5,514,442)	$ 165,558	$ 165,558

Internal balances between governmental activities and business type activities	$ 990,129

Firefighter's pension fund made a $2,250,000 loan to the general fund in 2008 for the purpose of buying new fire trucks. There is $1,295,774 remaining on this loan at year-end, and of that amount $1,084,960 will not be repaid in 2014.

Greenways endowment fund made a $3,232,022 loan to the Greenways III fund in 2011 for a land purchase. The repayment terms for this loan are interest only with a balloon payment of $3,232,022 in 2017. The Chuckanut Community Forest Park District was formed by voter approval in 2013. The District has levied a $0.28 cent per thousand dollars of assessed valuation to repay the Greenways endowment fund for this land purchase. The loan is scheduled to be repaid over the next ten years with the first payment anticipated to be received by June 30, 2014.

Fleet fund made a $2,200,000 loan to the water fund in 2012 for a land purchase. There is $986,646 remaining on this loan at year-end, and of that amount $247,846 will not be repaid in 2014.

Transfers in/out include transfers to support the operations of other funds, contributions to the capital of enterprise or internal service funds and transfers to establish or reduce working capital in funds.

Transfers at December 31, 2013

	Transfers Out								
Transfers In	General	Nonmajor governmental	Water	Waste-water	Surface and Storm	Medic one	Nonmajor enterprise	Internal service	Total
General	$ -	$ 553,211	$ -	$ -	$ -	$ -	$ 718,842	$ -	$ 1,272,053
Nonmajor governmental	930,040	-	-	-	-	-	-	-	930,040
Water	874,782	-	-	-	-	-	-	-	874,782
Surface and Storm	503,775	1,000,000	-	-	-	-	-	-	1,503,775
Medic one	1,067,774	-	-	-	-	-	-	-	1,067,774
Nonmajor enterprise	221,480	-	-	-	-	-	-	-	221,480
Internal service	1,481,232	61,470	37,165	37,214	16,601	13,543	80,612	66,890	1,794,727
Total	$ 5,079,083	$ 1,614,681	$ 37,165	$ 37,214	$ 16,601	$ 13,543	$ 799,454	$ 66,890	$ 7,664,631

IV-F Operating leases

The City leases two radio towers, one off-site data servicing facility and 29 copier leases under non-cancelable operating lease agreements. Operating leases do not give rise to property rights or lease obligations and therefore the results of the lease agreements are not reflected in the City's statement of net position. Total operating lease expenditures for 2013 were $225,517.

Future minimum lease payments year ending December 31, 2013

2014	246,393
2015	242,774
2016	110,273
2017	37,689
2018	9,415
2019-2023	-
Total	$ 646,544

IV-G Capital construction commitments

The City has outstanding contractual commitments, which include construction and engineering contracts for capital projects currently in progress. The City's total outstanding contract obligations are summarized as follows:

Construction commitments as of December 31, 2013

	Spent to date	Remaining commitment
Parks projects	$ 4,009,915	$ 578,716
Street projects	13,773,554	2,303,644
Water projects	1,506,413	151,756
Sewer projects	56,775,788	7,553,100
Storm projects	1,260,093	685,754
	$ 77,325,763	$ 11,272,970

IV-H Long-term debt

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Unlimited tax general obligation bonds are created by a 60% majority vote of the people and, therefore, financed by a special tax levy. Limited tax general obligation bonds are created by ordinance, adopted by City Council and normally financed from general fund revenues (councilmanic bonds).

The City currently has four outstanding general obligation bond issues and the original amount issued was $29,545,000. The City issued no new general obligation bonds in 2013.

2005 LTGO Solid Waste Series A bonds were issued December 8, 2005 in the amount of $1,545,000. These bonds are tax-exempt and the proceeds were used for the purpose of providing a portion of the funds for financing the environmental cleanup of the Holly Street landfill site. The proceeds were deposited in accordance with the bond ordinance into the solid waste fund. These bonds are financed by the solid waste fund, a business-type activity, and will mature in 2025.

2005 LTGO Solid Waste Series B bonds were issued December 8, 2005 in the amount of $7,150,000. These bonds are taxable and the proceeds were used for the purpose of financing the City's share of the environmental clean-up by the Port of Bellingham, Washington, of the Cornwall Avenue and Central Waterfront landfill sites and to finance the acquisition of the Colony Wharf property adjacent to the Roeder Avenue landfill site. The proceeds were deposited in accordance with the bond ordinance into the solid waste fund. These bonds are financed by the solid waste fund, a business-type activity, and will mature in 2023.

2011 LTGO Qualified Energy Conservation (QEC) bonds were issued April 27, 2011, in the amount of $6,480,000. These are term bonds with principal due in full on the maturity date. The City will make interest only payments until 2025. These bonds are taxable and the proceeds are being used for financing improvements in over 20 City-owned municipal buildings for the purpose of reducing energy consumption by at least 20 percent. The City has elected to receive a subsidy payment from the federal government equal to 70 percent of the interest calculated at the tax credit rate published by the United States Treasury on the date of sale. The federal credit payment will be paid to the City; no holders of the bonds will be entitled to a tax credit. The proceeds were deposited in accordance with the bond ordinance into the facilities fund. These bonds are financed by the facilities fund, a governmental activity, and will mature in 2025.

The City was notified that Congress included the QEC bond tax program subsidy as part of the "sequester" agreement, which took effect March 1, 2013. The May 2013 subsidy received was reduced by 8.7%, which equated to a $10,714 reduction in the subsidy provided to the City. The November 2013 subsidy received was reduced by 7.2%, which equated to a $8,867 reduction in funding. The 2014 subsidy payments are expected be reduced by 7.2% which is $17,734 less than originally slated.

2012 LTGO Refunding bonds were issued March 29, 2012 in the amount of $14,370,000. These bonds are tax exempt and the proceeds of this issue were used for an advance refunding of $3,205,000 of the 2004 LTGO Sportsplex acquisition bonds and $10,660,000 of the 2004 LTGO PFD/Civic/Aquatic refunding bonds, and to pay the bond issuance costs. The proceeds were deposited directly with the refunded debt escrow agent in accordance with the bond ordinance. These bonds are financed by the general fund and will mature in 2028.

General obligation bonds currently outstanding					
Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
2011 LTGO Qual energy conserv	6,480,000	04/27/11	12/01/25	5.43%	6,480,000
2012 LTGO Refunding	14,370,000	03/29/12	12/01/28	2.00 - 4.00%	14,010,000
Total governmental activities					20,490,000
Business-type activities					
2005 LTGO Solid Waste Series A	1,545,000	12/08/05	12/01/25	4.125 - 4.20%	1,545,000
2005 LTGO Solid Waste Series B	7,150,000	12/08/05	12/01/23	4.80 - 5.40%	4,665,000
Total business-type activities					6,210,000
Total general obligation bonds outstanding					$ 26,700,000

General obligation bond annual debt service requirements to maturity						
	Governmental activities			Business-type activities		
Year ending December 31	Principal	Interest	Total requirements	Principal	Interest	Total requirements
2014	$ 1,170,000	$ 793,289	$ 1,963,289	$ 385,000	$ 313,073	$ 698,073
2015	1,110,000	777,389	1,887,389	405,000	292,860	697,860
2016	1,190,000	744,089	1,934,089	425,000	271,517	696,517
2017	1,275,000	696,489	1,971,489	450,000	248,949	698,949
2018	1,370,000	645,489	2,015,489	470,000	225,054	695,054
2019-2023	4,115,000	2,854,545	6,969,545	2,760,000	720,995	3,480,995
2024-2028	10,260,000	995,953	11,255,953	1,315,000	83,046	1,398,046
Total	$ 20,490,000	$ 7,507,243	$ 27,997,243	$ 6,210,000	$ 2,155,494	$ 8,365,494

Notes payable

Drake property note payable - the City issued a note for the acquisition of Big Rock Garden Nursery property on December 31, 1992. The note was issued in the amount of $225,000 without an option for early redemption. This debt is for general governmental activities, financed from general fund revenues, and will mature in 2022. This note is subordinate to all general obligation debt.

Water and sewer revenue bond anticipation note, 2012 (revolving line of credit) - on December 10, 2012 the City entered into a Note agreement with Wells Fargo Bank, National Association for a revolving line of credit, not to exceed $5,000,000. The Note is to provide interim financing for the purchase of various parcels of land within the Lake Whatcom Watershed, and paying the cost of issuance of the Note. The Note is expected to be repaid from revenues of the water and sewer system, including, but not limited to, a portion of the City's watershed management fee set aside and dedicated to support the watershed management program.

The City shall make draws against the revolving line of credit, and repaid principal amounts of draws may be re-borrowed under the Note, provided that the outstanding balance of all draws under the Note

shall never exceed $5,000,000 at any time. Each draw shall have its own terms and maturity date. The City reserves the right to prepay and redeem the Note prior to the maturity date in whole or in part.

Each draw shall bear interest at the daily variable rate calculated as 65% of the LIBOR fixed rate term plus 70 basis points. The LIBOR term is designated by the City with respect to each draw. No fixed rate term may extend beyond the maturity date.

In addition to interest, the City pays an undrawn fee of 0.25% on the average daily balance of the unused portion of the outstanding commitment amount. The undrawn fee is payable quarterly in arrears.

On December 14, 2012 the City made the first draw against the revolving line of credit in the amount of $2,700.000. The required repayment terms for this draw are interest only payments until the maturity date of December 31, 2015. The interest rate in effect on December 31, 2013 was .812%

Notes payable debt currently outstanding

Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
Drake property note payable	$ 225,000	12/31/92	12/31/22	7.00%	$ 119,689
Total governmental activities					119,689
Business-type activities					
Revolving line of credit	2,700,000	12/14/12	12/31/15	variable	2,700,000
Total business-type activites					2,700,000
Total notes payable outstanding					$ 2,819,689

Notes payable annual debt service requirements to maturity

	Governmental activities			Business-type activities		
Year ending December 31	Principal	Interest	Total requirement	Principal	Interest	Total requirement
2014	$ 9,899	$ 8,065	$ 17,964	$ -	$ 31,200	$ 31,200
2015	10,614	7,349	17,963	2,700,000	31,200	2,731,200
2016	11,382	6,582	17,964	-		-
2017	12,204	5,759	17,963	-	-	-
2018	13,087	4,877	17,964	-	-	-
2019-2022	62,503	9,337	71,840	-	-	-
Total	$ 119,689	$ 41,969	$ 161,658	$ 2,700,000	$ 62,400	$ 2,762,400

Government loans

Public Work Trust Fund loans - The City has Public Work Trust Fund construction loan agreements with the State Department of Community Development. There are two existing Public Work Trust Fund loans with original loan amounts totaling $4,913,000. Loans for governmental activity purposes are financed through street revenues and loans for business-type activity purposes are financed through the water and wastewater funds. There were no new loan agreements entered into during 2013.

Street Resurfacing PWTF loan was issued in 2002 through 2005 in amounts totaling $2,975,000. The loan was authorized for a 20 year period with interest at .5%. The proceeds were deposited into street revenues for the purpose of street surface repaving throughout the city. The loan is for a governmental activity and matures in 2022.

Water Main Replacement PWTF loan was issued in 2002 through 2005 in amounts totaling $1,938,000. The loan was authorized for a 20 year period with interest at .5%. The proceeds were deposited into the water fund for the purpose of the citywide water main replacement. The loan is for a business-type activity and matures in 2022.

Economic Development Investment (EDI) program loan - The City entered into an EDI program loan agreement with Whatcom County on March 29, 2012 in the amount of $350,000. The loan was authorized for a seven year period with interest at 1%. The proceeds were deposited into street revenues for the purpose of providing funding support for the West Bakerview Overpass project using certain County funds designated for such infrastructure development. The loan is for a governmental activity and matures in 2019.

Washington States Department of Ecology (DOE) loan - The City entered into a Washington State Water Pollution Control Revolving Fund loan agreement with the DOE on June 22, 2012, for a total amount of $1,426,000. The proceeds of the loan will be deposited into the surface and stormwater fund and are for the partial funding of the Padden Creek Daylighting project. The project period is January 1, 2012 through December 31, 2015 and includes daylighting a 2,200 foot long reach of Padden Creek that currently flows in a continuous underground tunnel in order to restore the creek's natural channel and permanent riparian buffers. The project will improve water quality by restoring vegetated buffers, natural stream morphology and by providing biological integrity. Payments will be made to the City on a "reimbursable basis". The loan was authorized for a 20 year period with interest at 2.6%. The loan is for a business-type activity and matures in 2035.

Government loan debt currently outstanding

Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
Street Resurfacing PWTF loan	$ 2,975,000	07/25/02	07/01/22	0.50%	$ 1,421,415
EDI - Whatcom County loan	350,000	03/29/12	03/29/19	1.00%	301,480
Total governmental activities					1,722,895
Business-type activities					
Watermain Repl PWTF loan	1,938,000	07/25/02	07/01/22	0.50%	920,550
DOE Loan - Surface & Stormwater	39,354	05/10/13	12/31/35	2.60%	39,354
Total business-type activities					959,904
Total governmental loans outstanding					$ 2,682,799

Government loan annual debt service requirements to maturity

	Governmental activities			Business-type activities		
Year ending December 31	Principal	Interest	Total requirements	Principal	Interest	Total requirements
2014	$ 206,940	$ 10,122	$ 217,062	$ 102,283	$ 4,603	$ 106,886
2015	207,430	8,842	216,272	102,283	4,091	106,374
2016	207,925	7,558	215,483	102,559	4,615	107,174
2017	208,425	6,268	214,693	103,895	4,080	107,975
2018	208,930	4,973	213,903	103,937	3,526	107,463
2019-2022	683,245	8,412	691,657	418,080	9,281	427,361
2023-2028	-	-	-	10,187	2,927	13,114
2029-2033	-	-	-	11,600	1,514	13,114
2034-2035	-	-	-	5,080	167	5,247
Total	$ 1,722,895	$ 46,175	$ 1,769,070	$ 959,904	$ 34,804	$ 994,708

Revenue bonds

The City also issued bonds where revenue derived from the acquired or constructed assets are pledged to pay debt service. Revenue bonds are created by ordinance, adopted by the City Council and financed from enterprise fund revenues. The City currently has six revenue bonds and the original amount issued was $89,775,000. The water/sewer revenue bonds are issued to finance capital projects and watershed property acquisitions. There was one new revenue bond issued in 2013.

2004 Water and Sewer Revenue Improvement and Refunding bonds were issued May 1, 2004 in the amount of $10,690,000. These bonds are tax exempt and the proceeds of this issue had two purposes. $4,545,000 was used to pay a portion of projects including the construction of a 2.5 million gallon reservoir with offsite piping, on the lower portion of King Mountain that will serve the south Cordata area, and preliminary engineering for five other transmission mains which include Yew Street, Meridian Street, Academy Road, June Road and 21st Street. $6,145,000 was used to refund the remaining callable portion of the 1994 Water and Sewer Refunding bonds. The 1994 bonds were used for three purposes, to finance the water chlorination facility; refund outstanding bonds issued in 1979 for the Georgia-Pacific transmission line; refund the outstanding callable bonds for the 1990 bonds issued for the secondary treatment plant. On March 29, 2012 the City made an advanced refunding on a portion of these bonds in the amount of $3,275,000. The remaining bonds are financed by business-type activities and will mature in 2014.

2006 Water and Sewer Revenue bonds were issued June 15, 2006 in the amount of $11,330,000. These bonds are tax exempt and the proceeds were used to finance projects including construction of improvements to the City's water system and acquisition of real property in the Lake Whatcom Watershed in order to preserve water quality. The bonds are financed by business-type activities and will mature in 2026.

2008 Water and Sewer Revenue bonds were issued August 21, 2008 in the amount of $6,040,000. These bonds are tax exempt and the proceeds are being used to finance the acquisition of real property in the Lake Whatcom Watershed in order to preserve water quality, to pay the cost of other capital projects of the system that may be authorized by the Council and to pay the cost of issuance of the bonds. The bonds are financed by business-type activities and will mature in 2018.

2011 Water and Sewer Revenue bonds were issued September 27, 2011 in the amount of $42,655,000. These bonds are tax exempt and the proceeds are being used to finance the costs of constructing improvements to the City's combined water supply and distribution system and sewage collection and disposal system, to fund the debt service reserve account and to pay the cost of issuance of the bonds. The bonds are financed by business-type activities and will mature in 2041.

2012 Water and Sewer Refunding bonds were issued March 29, 2012 in the amount of $3,275,000. These bonds are tax exempt and the proceeds of this issue were used for an advance refunding of $3,135,000 of the *2004 Water and Sewer Revenue Improvement and Refunding bonds* and to pay the bond issuance costs. The proceeds were deposited directly with the refunded debt escrow agent in accordance with the bond ordinance. The bonds are financed by business-type activities and will mature in 2024.

2013 Water and Sewer Revenue bonds were issued August 27, 2013 in the amount of $15,785,000. These bonds are tax exempt and the proceeds are being used to finance the costs of constructing improvements to the City's combined water supply and distribution system and sewage collection and disposal system, to fund the debt service reserve account and to pay the cost of issuance of the bonds. The bonds are financed by business-type activities and will mature in 2043.

Revenue bonds currently outstanding

Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Business-type activities					
2004 Water/sewer impr/refunding *	$ 10,690,000	05/01/04	08/01/14	3.00 - 5.00%	$ 205,000
2006 Water/sewer revenue	11,330,000	06/15/06	08/01/26	4.00 - 4.50%	6,410,000
2008 Water/sewer revenue	6,040,000	08/21/08	08/01/18	3.00 - 4.25%	3,430,000
2011 Water/sewer revenue	42,655,000	09/27/11	08/01/41	2.00 - 5.00%	41,730,000
2012 Water/sewer refunding	3,275,000	03/29/12	08/01/24	2.00 - 4.00%	3,215,000
2013 Water/sewer revenue	15,785,000	08/27/13	08/01/43	4.25 - 5.00%	15,785,000
Total revenue bonds outstanding					$ 70,775,000

**$3,135,000 of these bonds were advanced refunded in 2012*

Revenue bond annual debt service requirements to maturity

Year ending December 31	Business-type activities Principal	Interest	Total requirements
2014	$ 1,995,000	$ 3,178,028	$ 5,173,028
2015	2,070,000	3,160,818	5,230,818
2016	2,145,000	3,086,518	5,231,518
2017	2,220,000	3,009,318	5,229,318
2018	2,300,000	2,926,018	5,226,018
2019-2023	7,250,000	13,610,300	20,860,300
2024-2028	8,955,000	11,916,626	20,871,626
2029-2033	11,315,000	9,554,594	20,869,594
2034-2038	14,330,000	6,537,243	20,867,243
2039-2043	18,195,000	2,671,077	20,866,077
Total	$ 70,775,000	$ 59,650,540	$ 130,425,540

To service revenue debt, $5,231,518 is available in the reserve accounts of the water and wastewater enterprise funds as of December 31, 2013 in compliance with applicable bond covenants.

Water and sewer revenue bond covenants require that revenue available for debt service (defined as operating and nonoperating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.25 times the maximum annual debt service (see statistical section). The City complies with bond covenants, with a current ratio coverage of 4.38%. There are numerous limitations and restrictions contained in the various bond indentures. The City is in compliance with all debt covenants.

In propriety funds, unamortized debt issue costs are recorded as amortizable bond costs and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

All bond issues comply with arbitrage regulations as verified by an outside consultant. Five year reports are prepared as required.

The table on the following page is a summary of the changes in long-term liabilities for the year ending December 31, 2013. The portion of the long-term debt due within one year is noted in the table on the far right and is broken out on the Statement of Net Position from the rest of the long-term debt balance. The City of Bellingham did not enter into any short-term debt activity during the year nor does it have any short-term debt outstanding at year-end.

Summary of changes in long-term liabilities for the year ending December 31, 2013

Debt type	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities					
Bonds payable:					
General obligation bonds	$15,095,000	$ -	$ (1,085,000)	$ 14,010,000	$ 1,170,000
Less deferred amounts:					
for issuance premiums	953,662	-	(19,502)	934,160	-
for issuance discounts	(7,094)	-	7,094	-	-
Taxable energy conservation bond	6,480,000	-	-	6,480,000	-
Less deferred amounts:					
for issuance discounts	(42,934)	-	42,934	-	-
Total general obligation bonds	22,478,634	-	(1,054,474)	21,424,160	1,170,000
Special assessment bonds with government commitment	75,000	-	(75,000)	-	-
Less deferred amounts:					
for issuance discounts	(29,014)	-	29,014	-	-
Total special assessment bonds	45,986	-	(45,986)	-	-
Total bonds payable	22,524,620	-	(1,100,460)	21,424,160	1,170,000
Notes payable	128,920	-	(9,231)	119,689	9,899
Government loans	1,929,349	-	(206,454)	1,722,895	206,940
Claims and litigation	2,350,839	412,746	(588,802)	2,174,783	631,275
Pollution remediation obligation	14,809,816	-	(1,215,356)	13,594,460	965,000
Net pension/OPEB obligation	671,792	2,538,557	(2,397,882)	812,467	-
Compensated absences	4,799,297	305,999	(26,964)	5,078,332	4,082,233
Governmental activities long-term liabilties	$47,214,633	$ 3,257,302	$ (5,545,149)	$ 44,926,786	$ 7,065,347
Business-type activities					
Bonds payable:					
Revenue bonds	$56,920,000	$15,785,000	$ (1,930,000)	$ 70,775,000	$ 1,995,000
General obligation bonds	6,575,000	-	(365,000)	6,210,000	385,000
Less deferred amounts:					
for issuance premiums	3,655,870	254,500	(147,856)	3,762,514	-
for issuance discounts	(553,680)	-	524,960	(28,720)	-
Total bonds payable	66,597,190	16,039,500	(1,917,896)	80,718,794	2,380,000
Notes payable	2,700,000	-	-	2,700,000	-
Government loans	1,022,833	39,354	(102,283)	959,904	102,283
Pollution remediation obligation	5,170,343	5,378,527	(464,450)	10,084,420	487,979
Compensated absences	646,588	25,718	(38,872)	633,434	569,456
Total business-type activities long-term liabilites	$76,136,954	$21,483,099	$ (2,523,501)	$ 95,096,552	$ 3,539,718

Internal service funds predominantly serve the governmental funds. Accordingly, long-term and short-term liabilities are included as part of the above totals for governmental activities. At year-end, long-

term liabilities of $56,177 and short-term liabilities of $209,518 for internal service fund compensated absences are included in the above amounts. For the governmental activities, compensated absences are generally liquidated by the general fund.

The general fund is responsible for ensuring that each pension fund has adequate cash to pay their pension benefit obligations, OPEB benefit obligations, and administrative expenses each year. Governmental activities for claims and litigation and pollution remediation are also financed through general fund revenues.

Pollution remediation in business-type activities is financed by solid waste fund revenues.

Discretely presented component units

Bellingham-Whatcom Public Facilities District

The PFD issued a limited sales tax obligation bond in the amount of $9,995,000 on December 20, 2007. The issue funded a portion of the cost of constructing the Whatcom Art and Children's Museum, a portion of the cost of phase II renovations to the Mount Baker Theatre as part of the regional center owned and operated by the PFD, and issue costs of the bonds. These bonds are financed by state sales tax rebate revenue and will mature in 2027.

Limited sales tax obligation bonds currently outstanding

Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
2007 Limited sales tax obligation	$ 9,995,000	12/20/07	12/01/27	4.00 - 4.20%	$ 9,995,000
Total bonds outstanding					$ 9,995,000

Limited sales tax annual debt service requirements to maturity

	Discretely presented component unit		
Year ending December 31	Principal	Interest	Total requirements
2014	$ -	$ 409,173	$ 409,173
2015	-	409,173	409,173
2016	-	409,173	409,173
2017	-	409,173	409,173
2018	210,000	409,173	619,173
2019-2023	4,085,000	1,711,212	5,796,212
2024-2027	5,700,000	655,983	6,355,983
Total	$ 9,995,000	$ 4,413,060	$ 14,408,060

The PFD entered into an agreement with the City of Bellingham to borrow funds from the City's 2004 LTGO PFD/Civic/Aquatic refunding bond. Of the total $16,375,000 bond issue, $9,370,000 was for the PFD to fund the construction of the Whatcom Museum. The PFD pays the debt service costs on its portion of the bond. The PFD portion of the bond matures in 2026.

The PFD entered into a loan agreement with the City of Bellingham in 2008 to borrow $2,800,000 for the purpose of funding the construction of the Whatcom Museum. This loan had a term of 10 years and

payments were interest only for the first five years. In 2010 the PFD made an unscheduled $1,000,000 principal payment, reducing the outstanding principal amount to $1,800,000. In 2013 the loan was restructured, setting an interest rate of 3.25% and extending the loan term to mature on December 31, 2027.

Intergovernmental loan currently outstanding

Name of issuance	Original loan amount	Issue date	Maturity date	Interest rates	Debt outstanding
2004 City of Bellingham loan	$ 9,370,000	11/09/04	12/01/26	2.00 - 4.00%	$ 7,435,000
2008 City of Bellingham loan	2,800,000	12/31/08	12/31/27	3.25%	1,800,000
Total bonds outstanding					$ 9,235,000

Intergovernmental loan annual debt service requirements to maturity

	Discretely presented component unit		
Year ending December 31	Principal	Interest	Total requirements
2014	$ 485,232	$ 309,284	$ 794,516
2015	448,222	339,122	787,344
2016	490,228	321,775	812,003
2017	532,350	302,753	835,103
2018	574,593	282,053	856,646
2019-2023	3,631,349	1,035,288	4,666,637
2024-2026	3,073,026	246,165	3,319,191
Total	$ 9,235,000	$ 2,836,440	$ 12,071,440

Summary of changes in long-term liabilities for the year ending December 31, 2013

Debt type	Beginning balance	Additions	Reductions	Ending balance	Due within one year
General obligation bonds	$ 9,995,000	$ -	$ -	$ 9,995,000	$ -
Less deferred amounts:					
for issuance discounts	(30,737)	-	2,049	(28,688)	-
Total bonds payable	9,964,263	-	2,049	9,966,312	-
Notes payable	9,584,000	-	(349,000)	9,235,000	485,232
Total long-term liabilites	$ 19,548,263	$ -	$ (346,951)	$ 19,201,312	$ 485,232

IV-I Restricted net position

The government-wide statement of net position reports $76,770,569 of restricted net position, of which $31,674,040 is restricted by enabling legislation.

NOTE V. OTHER DISCLOSURES

V-A Risk management

The City is exposed to various risks of losses related to torts, theft, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has established the following four internal service funds to account for and finance its uninsured risks of loss:

The claims, litigation and property loss fund is the source for payment of third party claims and judgments, excess liability insurance premiums and property insurance premiums. Currently the City maintains commercial property insurance for fire and other hazards on City properties having an estimated total replacement value of $189 million in 2013 and $210 million in 2014. During the current and preceding two years, no City property losses exceeded the City's insurance coverage.

Departments of the City contribute premiums to pay prior and current year claims and to provide a reserve for future losses, including catastrophic losses. For 2013, department contributions, judgments and settlements flowing into the fund totaled $1,218,125. For this same year, the City purchased excess liability insurance with a retained self-insurance limit of $1 million and $15 million in policy limits. The City Council has established by ordinance a goal of $5 million as the minimum amount to be made available to cover losses.

In the normal course of its various operations, the City of Bellingham is involved in lawsuits and receives claims for damages alleging City responsibility for damage incurred by third parties. Claims and/or litigation arise in such areas as police civil liability (false arrest), street and sidewalk design and/or maintenance, utility maintenance, zoning, building and other land-use regulations, equipment operation and other areas. These claims or lawsuits are a natural consequence of conducting the City's business. The City of Bellingham self-insures to cover most of its liability risk as reflected in the retained self-insurance limit.

The City has recorded in its financial statements all other material liabilities, including an estimate for all known claim liabilities. Claims expenditures and liabilities are accrued when the amount of that loss can be reasonably estimated. This estimate includes non-incremental claims adjustment expenses.

In 2013, the estimated claims liability decreased by $226,056.

The unemployment compensation fund was established to reimburse the State of Washington Employment Security Department, on a quarterly basis, for claims paid to former employees. State statutes mandate that most employers pay a tax or contribution to support the unemployment insurance system. City department contributions for 2013 totaled $108,713. In 2013, the City paid $89,413 in unemployment claims and $24,279 in administrative costs. At December 31, 2013, the total estimated liability is $160,000 and $493,794 is available. Discretely presented component unit employees are covered under the City self-insurance and are included in the figures above, with the exception of the PDA director who is covered by Washington State Employment Security.

The worker's compensation fund is the source for payment of employee injury claims and other related costs. The City is self-insured for this program and administers its claims by retaining the services of a third party administrator. Claims are administered within the guidelines established by the State of Washington. The workers' compensation program has reinsurance with a $500,000 per occurrence deductible.

Premiums are assessed to City departments based upon the number of hours worked by covered employees. Rates are revised annually to generate revenues sufficient to cover anticipated expenditures and provide a reserve for incurred but unreported future expenses. City department contributions for

2013 totaled $660,630. The department contribution rates are based on an internal formula derived from Washington State standard rates. In 2013, the City paid $371,374 in worker's compensation claims and $256,717 in administrative and reinsurance costs. At December 31, 2013, the total estimated liability is $430,000 and $1,046,690 is available. Discretely presented component unit employees are covered under the City self-insurance and are included in the figures above, with the exception of the PDA director who is covered by Washington State Labor & Industries.

Claims expenditures and liabilities are accrued when the amount of that loss can be reasonably estimated. This estimate includes non-incremental claims adjustment expenses.

Changes in estimated claims liabilities

Fund	Beginning liability	Claims and changes in estimates	Actual claims payments	Ending liability
Claims and litigation				
2011-2012	2,628,000	(353,503)	(463,658)	1,810,839
2012-2013	1,810,839	(98,041)	(128,015)	1,584,783
Unemployment compensation				
2011-2012	175,000	53,949	(68,949)	160,000
2012-2013	160,000	89,413	(89,413)	160,000
Workers' compensation				
2011-2012	350,000	373,734	(343,734)	380,000
2012-2013	380,000	421,374	(371,374)	430,000

In the opinion of management, the City's insurance policies and self-insurance are adequate to pay all known or pending claims.

The health benefits fund is the source for payment of employee health care and related costs. Medical insurance for employees is provided through premium paid plans, purchased through the Association of Washington City's Employee Benefit Trust. Both the City and employees contribute to the cost of medical insurance premiums. The City pays the dental insurance premiums and provides a self-insured vision plan for all employees.

City departments pay monthly premiums to the health benefits fund to cover premiums paid to third parties, administrative overhead, and other obligations. City department contributions for 2013 totaled $11,079,564 for the medical program, $1,195,283 for the dental program, and $83,836 for the vision program. Employee contributions for 2013 totaled $759,130 for medical, $0 for dental, and $709 for vision. The City and employees paid a total of $13,118,522 to the fund and spent $11,833,791 on insurance and health care and $527,817 on administrative costs. At December 31, 2013, $3,091,611 is available for all purposes. Discretely presented component unit employees are covered under the City's health plan with the exception of the PDA director who is covered by a separate contract with the Association of Washington Cities.

V-B Contingencies

Cleanup contingencies - The City of Bellingham (the City) has been named as a Potentially Liable Party (PLP) (as that term is defined in the Model Toxics Control Act) by the Washington State Department of Ecology (DOE) with respect to several cleanup sites. Cleanup at these sites is in a variety of stages, from no action to completion, with several at the remedial investigation phase. For most of these sites, the

City is eligible for, and has received or hopes to receive, matching funds from DOE for the cleanups. At several of the sites, the City is not the only PLP and is in negotiation with the other PLPs as to each party's responsibility to fund the remedial actions. The City has issued two general obligation bonds for the City's share of remediation costs to be repaid primarily by net revenues from the solid waste fund. These revenues are generated principally by tax revenues paid by the City's solid waste contractor. The solid waste fund's projected cash flow indicates sufficient net revenue to repay the estimated principal and interest costs over a twenty-year period.

New Whatcom Waterfront Development project - In 2004, the City entered into an Interlocal Agreement with the Port of Bellingham to redevelop 137 acres of heavy industrial property located in the center of the City's downtown waterfront. The current plan is to create a new city neighborhood with homes, shops, offices and light industry, as well as parks and promenades, a healthy shoreline habitat along Bellingham Bay, and a new marina. The City has agreed to provide essential new roads, utilities, parks and trails. The specific elements of the public infrastructure to be provided by the City will be delineated in the Development Agreement. The Port agreed to purchase the Georgia-Pacific property, conduct a comprehensive environmental cleanup of the site and the waterway in keeping with goals defined by the Bellingham Bay Pilot Project, and to develop new visitor and permanent moorage. In addition, the project has received support from the state for railroad track relocation, demolition, planning, and environmental cleanup. The federal government has awarded funds for major transportation improvements needed to access this site. In 2006, the State Legislature approved the New Whatcom Waterfront Development Project as one of the demonstration projects for the Local Infrastructure Financing Tool (LIFT). LIFT is a type of tax incremental financing that will provide up to $1 million per year for capital projects in the redevelopment area for twenty-five years.

Bellingham-Whatcom Public Facilities District (PFD) contingent loan agreement – The City of Bellingham has signed a contingent loan and bridge loan agreement (contract 2007-0552) with the PFD.

- *Contingent loan commitment for bonds* - In 2007, the PFD issued $9,995,000 of limited sales tax obligation bonds. The issue funded a portion of the cost of constructing the Whatcom Art and Children's Museum and paid a portion of the cost of phase II renovations to the Mount Baker Theatre, as part of the regional center owned and operated by the PFD, and paid issuance costs of the bonds. The contingent loan agreement provides that the City is to make a loan to the PFD in the event that the PFD is unable to provide for the payment of principal or interest on any of its bonds.
- *Bridge loan* – In 2009, the City made a bridge loan to the PFD, at the PFD's request, in an amount up to the $2,800,000 with a term of 5 years interest only and 5 years principal and interest. The PFD made an early payment of $1 million in principal in 2010. In December of 2013, the outstanding balance of $1,800,000 was restructured (Ordinance 2013-12-096) into a fourteen year loan at 3.25%, with annual debt service payments of $160,203.

Grant contingencies - The City participates in federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Home rehabilitation program loan guarantee - The City has an agreement with Key Bank of Washington to guarantee Bellingham Home Rehabilitation Program loans. The City is committed to reimburse the bank for 90% of the outstanding balance of defaulted program loans. At December 31, 2013, the outstanding balance of these loans is $12,067, and the resultant contingent liability is $10,861.

Housing Authority loan contingent agreements - The City of Bellingham has signed two contingent loan agreements with the Housing Authority of the City of Bellingham (Housing Authority). The agreements

obligate the City, upon request from the Housing Authority, to restore the reserve accounts to the reserve requirement (1998 issue -105%, 2001 issue - 110%) or to pay regularly scheduled debt service if Authority funds are insufficient. The Housing Authority and the City would agree on repayment terms at that time. Rental income is applied to bond repayment and maintenance of reserve accounts. During the life of the agreements and earlier agreements with the Housing Authority, the Housing Authority has not utilized this loan provision. The City estimates no potential loss from the agreements.

In 1998, the Housing Authority issued $20,755,000 of housing refunding revenue bonds. The issue, refunds the 1994 Cascade Meadows bonds and 1992 Pacific Rim bonds. The agreement is authorized by Ordinance 10925. In 2001, the Housing Authority issued $5,350,000 of revenue bonds. The issue, funds the acquisition and rehabilitation of a 91-unit apartment complex known as Varsity Village. The agreement is authorized by Ordinance 2001-11-083.

V-C GASB 49 pollution remediation obligations

The City records pollution remediation obligations as a liability and it accounts for remediation activity in both proprietary and governmental funds. The City's future remediation obligations are reviewed and updated at the end of each year to reflect current year activity and to revise estimates of future obligations. All sites are overseen by the Washington State Department of Ecology. The City has been named as a Potentially Liable Person ("PLP") by the Washington State Department of Ecology for each of the five sites listed below. To determine the City's remediation liability, project estimates were used from engineers and other remediation specialists. In each case, Legal and Finance staff determined that a single project option was the best representation of the City's future liability. The City expects to receive up to half of the cost of all environmental remediation costs from the State of Washington through the issuance of Department of Ecology local cleanup grants. These grants are issued on a biennial basis with each grant being awarded following the issuance of a cleanup order from the Department of Ecology. These grants are not recognized by the City until they are received.

As RI/FS reports are completed and become available, the estimated pollution remediation obligation balances are updated to reflect the revised estimates. A remedial investigation and feasibility study ("RI/FS") was prepared and issued for the Cornwall Ave Landfill Site in December 2013. The estimated pollution remediation obligation for the Cornwall site was updated below based on the preferred alternative discussed in the report.

RI/FS reports are in process for the other three sites where the City of Bellingham has been named as a PLP. Per the Department of Ecology website, the RI/FS reports for the remaining sites are slated for completion in 2014: South State Street Manufactured Gas Plant, the RG Haley Site, and the Central Waterfront. Costs will be updated as clean-up actions are finalized for each site.

Estimated pollution remediation obligations

Site	Governmental activities	Business-type activities
S. State St Man. Gas Plant (f.k.a Boulevard Park)	$ 8,553,817	$ -
Cornwall Ave Landfill Site	-	7,150,381
RG Haley Site	5,040,643	-
Eldridge Municipal Landfill	-	95,453
Central Waterfront	-	2,838,586
Total	$ 13,594,460	$ 10,084,420

Estimated pollution remediation prepaid assets		
Site	Governmental activities	Business-type activities
Cornwall Ave Landfill Site	$ -	$ 803,710
Central Waterfront	-	1,332,086
Total	$ -	$ 2,135,796

South State Street Manufactured Gas Plant site (formerly known as: Boulevard Park) – Remediation is required to cleanup contamination from the use of this site for the manufacturing of gas from coal. The current estimated cost of remediation is $8.5 million. The City is negotiating for financial contributions from other potentially liable parties.

Cornwall Ave Landfill site - Remediation is required to cleanup contamination from the use of this site as a landfill for solid waste. In 2005, the City and the Port of Bellingham ('the Port') entered into an agreement to cleanup this site with an original cost estimate of $3 million plus Ecology oversight costs. The City prefunded its share of that original estimate by paying the Port $1.44 million upfront.

An RI/FS was released in December 2013 and placed the new estimate for groundwater and sediment cleanup at $9.1 million. Additionally, the City and Port expect another $434 thousand of Ecology oversight costs on top of the estimate in the RI/FS. Of the $1.44 million prepaid, $636 thousand has been exhausted leaving a residual prepaid asset of $804 thousand. The City's current estimated remediation liability is $7.15 million based on the cost sharing agreement between the City and the Port. The net balance of the City's prepaid pollution remediation asset and the City's pollution remediation obligation related to the Cornwall Ave Landfill site is $6.35 million.

RG Haley site - Remediation is required to cleanup contamination from the use of this site as a wood treatment facility and from cross contamination from garbage landfill activities on the adjacent property, which is part of the Cornwall Avenue Landfill Site.

During 2013, approximately $412 thousand was spent on a contamination containment interim action to prevent the spread of petroleum hydrocarbon to the waters of Bellingham Bay. Containment was achieved by placing amended or reactive cap material on top of the contaminated sediment. The interim action was intended to contain contaminants while the City completes the Remedial Investigation and Feasibility Study (RI/FS) process in accordance with the Washington State Model Toxics Control Act. The interim action did not preclude the evaluation or selection of alternatives for the final cleanup action. The total liability related to the RG Haley Site was increased in the 2012 financial statements based on the anticipated interim action costs. Based on currently available information, the pollution remediation obligation recorded above is a reasonable estimate of the future costs. The estimate will be updated upon issuance of the RI/FS report.

Eldridge Avenue Municipal Landfill – Remediation is required to cleanup contamination from the use of this site as a landfill for garbage. The remediation of this site is now complete. Ongoing monitoring and testing of the site is being coordinated with the Department of Ecology. The current cost estimate for completion of the remaining work is $95 thousand.

Central Waterfront – Remediation is required to cleanup contamination from the use of this area as a landfill for solid waste. In 2005, the City and the Port of Bellingham entered into an agreement to

cleanup this site for an estimated $6.8 million. The City pre-paid the Port of Bellingham $2.26 million in 2005 to be applied against the future remediation expenses. Of the $2.26 million prepaid, $928 thousand has been exhausted leaving a residual prepaid asset of $1.33 million. The City's current estimated remediation liability is $2.8 million. The net of the prepaid pollution remediation asset and the pollution remediation obligation related to the Central Waterfront site is $1.5 million.

V-D Interlocal agreements

Whatcom Medic One

In November 2005, Whatcom County voters approved a ballot proposition authorizing the County to collect 1/10th of one percent sales tax for the purposes of supporting countywide emergency medical and law enforcement services. 1/3rd of this new tax remains with the county/cities for law enforcement and 2/3rds of this new tax is remitted to the County to be used for countywide emergency medical services. A 2006 interlocal agreement between the County and City reflects a higher County monetary contribution, with the City matching this amount with an in-kind contribution of city resources assigned to provide administrative support services. Per the interlocal agreement, the contribution amounts stated for 2007 will increase at the rate of 1% per year. In 2013, Whatcom County contributed $1,432,588 to Whatcom Medic One operations and the City contributed $1,067,774. Beginning in 2007, the EMS sales tax is being used to fund the unfunded portion of Whatcom Medic One's budget. In 2013, the EMS sales tax funded $2,932,997 of Whatcom Medic One's operations.

In 2010, Whatcom County advised the City of its intent to opt out of the ambulance services contract renewal. On January 1, 2014, the County assumed management responsibility of the countywide emergency medical service. The City of Bellingham now contracts with the county to provide ambulance service in certain areas of the county. The co-owned Whatcom Medic One inventory and assets will be equally divided between Whatcom County and the City as of December 31, 2013.

What-Comm/Prospect Communications Center

The City of Bellingham participates with Whatcom County and other local governmental jurisdictions to provide two communication centers; the first is for law enforcement and is the primary public safety answering point. The other is for fire and emergency medical services and serves as the secondary public safety answering point. Each center is capable of providing back up support for the other.

City police department personnel operate "What-Comm Communications Center" and administration is the responsibility of the Bellingham Police Chief. City fire department personnel operate "Prospect Communications Center" and administration is the responsibility of the Bellingham Fire Chief. The City is responsible for maintaining records and statistics regarding the two operations.

The City operates and manages the communications centers under advisement of an administrative board composed of eight voting members and one nonvoting member. The Administrative board has the authority to establish broad policy guidelines and for establishing the annual financial contributions to be made by the member jurisdictions. In 2013, the City contributed $1,868,999 to the public safety dispatch fund as its share of operations, approximately 40% of total revenues.

V-E 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect

to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to

reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both the city and the employees made the required contributions. The city's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 96,731	$ 1,590,094	$ 669,138
2012	103,272	1,314,610	557,991
2011	$ 97,037	$ 1,169,344	$468,314

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefits, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary of the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary of the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Non-vested	2,633
Total	**27,784**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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 DRS' fiscal year 2013, the state contributed $54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for ports and universities is 8.59%.

Both the City and the employees made the required contributions. The City required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2013	$ 890	$ 1,312,368
2012	822	1,167,707
2011	$ 1,029	$ 1,148,899

City of Bellingham Firefighters' and Police Officers' Pension Funds

Plan description:

The City is the administrator of the firefighters' and police officers' pension plans shown as trust funds in the City's financial reports. Separate financial statements are not issued. Both systems are closed single-employer defined benefit plans that were established in conformance with RCW 41.18 and 41.20. These plans provide retirement benefits, disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Membership and eligibility:

Membership is limited to firefighters' and police officers' employed prior to March 1, 1970 when the DRS LEOFF Plan I retirement system was established.

Firefighter plan membership as of December 31, 2013, consisted of 49 retirees and beneficiaries of which 43 were receiving benefits.

Police officer plan membership as of December 31, 2013, consisted of 26 retirees and beneficiaries of which 16 were receiving benefits.

Firefighters' pension members are eligible for retirement after completing 5 years of service and attaining the age of 50. A member is eligible for disability benefits if disabled for a minimum of 6 months. An individual becomes vested after 5 years of service. All existing members of this closed plan are fully vested.

Police officers' pension plan members are eligible for benefits after completing 25 years of service. A member is eligible for disability benefits if disabled for a minimum of 6 months. An individual becomes vested after 5 years of service. All existing members of this closed plan are fully vested.

Benefit obligations:

The City's obligation under the plans consists of paying full benefits, including payment to beneficiaries, for members who retired prior to March 1, 1970 and partial or excess benefits over LEOFF Plan I benefits for those members who retired or will retire after March 1, 1970.

Pension benefits are tied to the current pay rates and/or the cost of living index. Benefits are calculated based on length of service (a percentage for each year of service) and on the AFC for the last two years of credited service.

Each member in service on March 1, 1970, receives the greater of benefit payable under the DRS LEOFF Plan I system or the benefits available under the old law. Where benefits under the old law exceed those under LEOFF Plan I, the excess benefits are paid by the pension fund of the City employing them on March 1, 1970.

There were no changes in benefit provisions in the current year.

Summary of significant accounting policies:

The financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which they are due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recorded when due and payable in accordance with the terms of each plan.

Investments:

Details of plan investments are included in Note IV-A. The fair value of investments in these funds are determined by their market value.

Funding policy and contributions:

The general fund is responsible for ensuring that each of the pension funds has adequate cash to pay their benefit obligations and administrative expenses each year. There have been no required employee contributions to the firefighters' or police officers' pension plans since March 1, 1970.

The firefighters' pension plan employer contributions for 2013 consist of $548,805 of City levied property tax, $50,066 investment interest, $70,000 from general fund, and $129,799 of state fire insurance premium tax.

The police officers' pension plan employer contributions for 2013 consist of $29,531 investment interest, $243,955 from General Fund, and $19,389 of unclaimed property auction proceeds.

Actuarial methods and assumptions:

Actuarial valuations involve estimates and assumptions about the probability of events far into the future and the amounts are subject to continual revision and reflect a long-term perspective. Actuarial valuations of these plans are performed every two years, with the most recent valuation being performed to determine the funded status as of December 31, 2012. The actuarial assumptions involving investment earnings and salary growth for both police officers' and firefighters' pension plans have been determined in accordance with the recommendation of the system's retained actuary. Under LEOFF Plan I, the benefit is adjusted after retirement in proportion to the change in the Consumer Price Index (CPI). Most adjustments are based on the change in salary for the rank the members held at retirement. The salaries are based on salary and benefits surveys collected by the Association of Washington Cities (AWC) for an upper-level police officer and firefighter. The CPI figures used are for classification *Urban Wage Earners and Clerical Workers, Seattle-Everett, Washing*ton, which is the basis of LEOFF Plan I increases.

While assumptions are made regarding mortality, inflation and wage rates, our actuary presents a cash flow projection rather than an actuarial funding plan to liquidate any unfunded liabilities. The City uses this cash flow projection to budget annual amounts to transfer to these plans for benefits. The annual required contribution (ARC) is computed using the entry age normal cost method. Under this method, the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The actuarial value of assets is the market value. The amortization period is "30 year closed" beginning January 1, 1997. As of December 31, 2013 there are 13 years remaining.

The following significant assumptions are used in the most current study:

- 2.5% Inflation rate
- 4.5% investment return on present and future assets
- 3.5% Salary increase
- 2.5% CPI increase for LEOFF Plan I benefits
- Life expectancy for retirees is based on RP-2000 mortality tables using scale AA
- 9% assumed medical care expense inflation rate
- 4.5% long-term care expense

Funding status and progress:

As of the last valuation date, December 31, 2012, the firefighters' pension plan is 87.0% funded and the police officers' pension plan is 216.4% funded.

Schedule of funding status and funding progress for pension

	Firefighters' 12/31/12	Police Officers' 12/31/12
Actuarial value of plan assets	$ 5,555,000	$ 3,408,000
Actuarial accrued liability (AAL)	6,382,000	1,575,000
Unfunded actuarial liability (UAAL)	827,000	(1,833,000)
Funded ratio	87.0%	216.4%
Covered payroll	**	**
UAAL actuarial accrued liability as a % of covered payroll	0%	0%

** 2012 is the most current actuarial valuation. The next valuation will occur in 2014. ** There are no active plan employees to contribute to covered payroll in these plans*

A schedule of funding progress provided in the required supplemental information section of this report provides information on whether the funded ratio is increasing or decreasing over time.

In 2013, the City contributed more than the ARC in both the firefighters' and the police officers' pension plans.

Annual Pension Cost (APC) and Net Pension Obligation (NPO)

	Firefighters' 12/31/13	Police Officers' 12/31/13
Annual required contribution (ARC)	$ 73,616	$ -
Interest on net pension obligation (NPO)	(280,503)	(181,004)
Actuarial adjustment to ARC	434,436	117,168
Annual pension cost (APC)	227,549	(63,836)
Employer contributions	(748,604)	(263,344)
Increase / (decrease) in net pension obligation	(521,055)	(327,180)
Net pension obligation (asset) at beginning of year	(5,100,061)	(3,290,978)
Net pension obligation (asset) at end of year	$ (5,621,116)	$ (3,618,158)

Trend information is intended to provide an indication of the progress being made in accumulating sufficient assets to pay benefits when due. A negative net pension obligation is the result of the City overpaying its annual required pension cost.

Three year pension trend information

	Year ending	Annual pension cost (APC)	Employer contributions	Contribution as a % of APC	Net pension obligation (NPO)
Firefighters'	12/31/11	$ 230,808	$ 496,590	215.2%	$ (4,719,253)
	12/31/12	252,555	633,363	250.8%	(5,100,061)
	12/31/13	227,549	748,604	329.0%	(5,621,116)
Police Officers'	12/31/11	**	73,432	**	(2,873,833)
	12/31/12	**	399,991	**	(3,290,978)
	12/31/13	**	$ 263,344	**	$ (3,618,158)

*** Annual pension cost is less than zero.*

V-F Other post-employment benefits (OPEB)

Firefighters' and Police Officers' Medical and Long-Term Care Plans

Plan description:

In addition to the pension benefits described in Note V-E, the City is also the administrator of the Firefighters' and Police Officers' defined benefit post-employment medical and long-term care plans. Both health plans are closed single-employer defined benefit plans shown as trust funds in the City's financial reports. Separate financial statements are not issued. In accordance with RCW 41.26 the City provides lifetime health care benefits for firefighters' and police officers' who established membership after June 8, 1961 and before October 1, 1977.

Membership and eligibility:

As of December 31, 2013, there are 117 LEOFF Plan I employees and former employees of the City who have established membership after June 8, 1961 and before October 1, 1977. Of these 117 employees, 68 firefighters' and 44 police officers' are retired and meet the retirement eligibility requirements.

Benefit obligations:

The City's obligation under the plans consists of paying retired LEOFF Plan I members' lifetime usual and customary medical and long-term care services not payable from another source. The Bellingham Fire and Police Pension Boards' review claims and designate the health care services and expenses to be covered.

Summary of significant accounting policies:

The financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which they are due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recorded when due and payable in accordance with the terms of each plan.

Investments:

Details of plan investments are included in Note IV-A. The fair value of investments are determined by their market value.

Funding policy and contributions:

The general fund is responsible for ensuring that the trust funds have adequate cash to pay their benefit obligations and administrative expenses each year. The medical care benefits are funded on a pay-as-you-go basis. The long-term care benefits are being pre-funded.

The firefighters' medical and long-term care health plans' contributions for 2013 consisted of $1,338,389 of City levied property tax, $135,220 of employer general fund contribution, and $21,274 of investment earnings.

The police officers' medical and long-term care health plans' contributions for 2013 consisted of $924,273 of employer general fund contribution and $18,815 of investment earnings.

Member benefits and expenses:

In 2013, the City purchased group insurance from Association of Washington Cities (AWC) to provide comprehensive medical coverage for LEOFF Plan I retirees under the age of 65 and supplemental medical coverage for LEOFF Plan I retirees over the age of 65. The City reimburses Medicare Part B premiums for eligible LEOFF Plan I retirees over the age of 65.

The fixed AWC insurance premiums paid in 2013 were $1,573 per month for retirees not enrolled in Medicare and $1,003 per month for retirees enrolled in Medicare. The Medicare Part B insurance premiums paid in 2013 were $105 per month.

OPEB medical and long-term care benefit and expenses paid in 2013

	Firefighters'	Police Officers'
Medical	$ 1,077,118	$ 696,486
Long-term care	58,261	61,564
Administrative expenses	53,681	47,788
Total	$ 1,189,060	$ 805,838

Funding status and progress:

Actuarial valuations involve estimates and assumptions about the probability of events far into the future and the amounts are subject to continual revision and reflect a long-term perspective. Actuarial valuations of these plans are performed every two years, with the most recent valuation being performed to determine the funded status as of December 31, 2012. The actuarial assumptions involving investment earnings and salary growth for both police officers' and firefighters' long-term care plans have been determined in accordance with the recommendation of the system's retained actuary.

While assumptions are made regarding mortality, inflation and wage rates, our actuary presents a cash flow projection rather than an actuarial funding plan to liquidate any unfunded liabilities. The City uses this cash flow projection to budget annual amounts to transfer to these plans for benefits. The ARC is computed using the entry age normal cost method. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The actuarial value of assets is the market value of assets. The amortization period used for unfunded obligations is a closed 30-year period beginning January 1, 2007, with 23 years remaining.

The following significant assumptions are used in the most current study:

- 2.5% inflation rate
- 4.5% investment return on present and future assets
- 9.0% medical care expense inflation rate
- 4.5% long-term care expense inflation rate
- Life expectancy based on RP-2000 mortality tables using scale AA

As of the last valuation date, December 31, 2012 the firefighters' OPEB long-term care plan is 9.8% funded and the police officers' OPEB long-term care plan is 13.2% funded.

Schedule of funding status and funding progress for OPEB		
	Firefighters' 12/31/12	Police Officers' 12/31/12
Actuarial value of plan assets	$ 2,365,000	$ 2,172,000
Actuarial accrued liability (AAL)	24,127,000	16,445,000
Unfunded actuarial accrued liability (UAAL)	21,762,000	14,273,000
Funded ratio	9.8%	13.2%
Covered payroll	**	**
UAAL as a % of covered payroll	0.0%	0.0%

** 2012 is the most current actuarial valuation. The next valuation will occur in 2014. ** There are no active plan employees to contribute to covered payroll in these plans*

A schedule of funding progress provided in the required supplemental information section of this report provides information on whether the funded ratio is increasing or decreasing over time.

Annual OPEB cost (AOC) and net OPEB obligation		
	Firefighters' 12/31/13	Police Officers' 12/31/13
Annual required contribution (ARC)	$ 1,538,195	$ 1,008,853
Interest on net OPEB obligation	21,972	14,977
Actuarial adjustment to ARC	(27,021)	(18,419)
Annual OPEB cost (AOC)	1,533,146	1,005,411
Employer contributions	(1,473,609)	(924,273)
Increase / (decrease) in net OPEB obligation	59,537	81,138
Net OPEB obligation (asset) at beginning of year	399,483	272,309
Net OPEB obligation (asset) at end of year	$ 459,020	$ 353,447

Trend information is intended to provide an indication of the progress being made in accumulating sufficient assets to pay benefits when due. A negative net OPEB obligation is the result of the City overpaying its annual required OPEB cost.

Three-year OPEB trend information

	Year ending	Annual OPEB (AOC)	Employer contributions	Contribution as a % of AOC	Net OPEB obligation
Firefighters'	12/31/11	$ 1,649,442	$ 1,740,949	105.5%	$ 339,193
	12/31/12	1,650,398	1,590,108	96.3%	399,483
	12/31/13	1,533,146	1,473,609	96.1%	459,020
Police Officers'	12/31/11	1,100,224	822,505	74.8%	261,883
	12/31/12	1,095,506	1,085,080	99.0%	272,309
	12/31/13	$ 1,005,411	$ 924,373	91.9%	$ 353,447

The statement of net position and the statement of changes in plan net position for the trust funds are presented below with separation between the pension, medical care, and long-term care plans.

Statement of Net Position
Firefighters' Pension & OPEB
December 31, 2013

	Pension	Medical Care	LT Care	Totals
ASSETS				
Cash and cash equivalents	$ 709,003	$ -	$ 462,634	$1,171,637
Investments:				
Governments securities	3,796,375	-	2,172,480	5,968,855
Employer receivable	46,666	-	5,825	52,491
Interfund loans receivable	1,295,774	-	-	1,295,774
Total assets	5,847,818	-	2,640,939	8,488,757
LIABILITIES				
Accounts payable	5,951	-	500	6,451
Accrued pension benefits	107,714	-	-	107,714
Other liabilities	34,822	-	-	34,822
Total liabilities	148,487	-	500	148,987
NET POSITION - HELD IN TRUST				
Net Position--restricted for pension & OPEB benefits	$5,699,331	-	$2,640,439	$8,339,770

Statement of Changes in Plan Net Position
Firefighters' Pension & OPEB
December 31, 2013

ADDITIONS	Pension	Medical Care	LT Care	Total
Contributions:				
Taxes	$ 678,604	$ 1,130,798	$ 207,591	$ 2,016,993
Employer contributions	70,000	-	135,220	205,220
Total trust contributions	748,604	1,130,798	342,811	2,222,213
Investment income:				
Interest	50,066	-	21,274	71,340
Net incr (decr) in fair value of investments	(52,649)	-	(30,186)	(82,835)
Net investment income	(2,583)	-	(8,912)	(11,495)
Total additions	746,021	1,130,798	333,899	2,210,718
DEDUCTIONS				
Benefits	598,129	1,077,118	58,261	1,733,508
Administration expense	3,493	53,680	-	57,173
Total deductions	601,622	1,130,798	58,261	1,790,681
CHANGE IN NET ASSETS				
Pension benefits	144,399	-	-	144,399
Long-term care benefits	-	-	275,638	275,638
Net position--restricted pension & OPEB benefits, Jan. 1, 2013	5,554,932	-	2,364,801	7,919,733
Net position--restricted pension & OPEB benefits, Dec. 31, 2013	$ 5,699,331	$ -	$ 2,640,439	$ 8,339,770

Statement of Net Position
Police Officer's Pension & OPEB
December 31, 2013

	Pension	Medical Care	LT Care	Totals
ASSETS				
Cash and cash equivalents	$ 574,631	$ -	$ 373,771	$ 948,402
Investments:				
Governments securities	2,927,435	-	1,904,163	4,831,598
Receivables, net	7,495	-	4,876	12,371
Total assets	3,509,561	-	2,282,810	5,792,371
LIABILITIES				
Accounts payable	1,728	-	-	1,728
Accrued pension benefits	10,203	-	-	10,203
Total liabilities	11,931	-	-	11,931
NET POSITION - HELD IN TRUST				
Net position--restricted employees' pension & OPEB benefits	$ 3,497,630	-	$ 2,282,810	$ 5,780,440

Statement of Changes in Plan Net Assets
Police Officers' Pension & OPEB
December 31, 2013

	Pension	Medical Care	LT Care	Totals
ADDITIONS				
Contributions:				
Auction proceeds	$ 19,389	$ -	$ -	$ 19,389
Employer contributions	243,955	744,273	180,000	1,168,228
Total trust contributions	263,344	744,273	180,000	1,187,617
Investment income:				
Interest	29,531	-	18,815	48,346
Net increase in fair value of investments	(40,537)	-	(26,387)	(66,924)
Net investment income	(11,006)	-	(7,572)	(18,578)
Total additions	252,338	744,273	172,428	1,169,039
DEDUCTIONS				
Benefits	160,904	696,486	61,564	918,954
Administration expense	1,557	47,787	-	49,344
Total deductions	162,461	744,273	61,564	968,298
NET INCREASE				
Pension benefits	89,877	-	-	89,877
Long-term care benefits	-	-	110,864	110,864
Net position--restricted pension & OPEB benefits, Jan. 1, 2013	3,407,753	-	2,171,946	5,579,699
Net position--restricted pension & OPEB benefits, Dec. 31, 2013	$ 3,497,630	$ -	$ 2,282,810	$ 5,780,440

V-G Endowments

Greenways maintenance endowment fund – This endowment was created internally by ordinance 1998-02-004. In November 1997, the voters passed a ballot issue to levy increased property taxes in the amount of $20 million over nine years to provide funds for continuing acquisition, improvement and maintenance of current and future open space, greenways, parks, athletic fields, recreation facilities, trails and wetlands. The City created two funds to account for this levy. The first was the beyond greenways fund with 90% of the levy property tax receipts to be used for acquisition and development/improvement of property. The second was the beyond greenways endowment fund with 10% of the levy property tax receipts and interest earnings that are not yet needed for operational purposes and any principal donations that are intended to be kept in a nonexpendable trust.

On May 16, 2006, the voters passed a ballot authorizing the City to increase its regular property tax levy in 2007 to $2.49 per thousand (which included $.057 per thousand from the beyond greenways levy) of assessed valuation on all of the taxable property within the City. The ballot specified increases in 2008 and each of the nine succeeding years as allowed by RCW 84.55 to be used for the costs of parks, greenways, trail, and open space property acquisition, development, and maintenance. The City created the greenways III fund to account for 91% of the levy property tax receipts to be used for acquisition and development/improvement of property. 9% of the levy property tax receipts and interest earnings that are not yet needed for operational purposes are deposited into the endowment fund.

Ordinance 2007-04-034 changed the name of the beyond greenways endowment fund to greenways maintenance endowment fund. This ordinance also expanded the scope of the fund to include revenues from the greenways III levy and maintenance activities for properties acquired or developed with any greenway levy funds.

The interest earned within the greenways maintenance endowment fund is transferred when needed. It helps pay for parks and recreation department maintenance of properties acquired and developed with beyond greenways funds.

As of December 31, 2013, a total of $4,637,462 in property taxes and donations has been receipted into the endowment fund and is nonspendable. During 2013 all available interest was spent.

Natural resource protect and restore fund – As a result of the 1999 Olympic Pipeline disaster, an agreement was reached in December 2003 between the City of Bellingham and the Washington State Department of Ecology, establishing an endowment fund to be used solely for (a) the purchase of conservation easements, or (b) restoration of damaged ecological processes. Ordinance 2004-01-001 incorporated the agreement and its governing rules and regulations. The $4.0 million endowment was received December 16, 2003.

According to the terms of the agreement, the corpus (or original lump revenue) cannot be expended for fifty (50) years. Only the interest earned by that corpus or any other outside revenues received (such as donations) may be expended for (a) or (b) as defined above. As of December 31, 2013, $352,044 is available to spend.

The fund balance of the endowment fund is reflected in the governmental portion of the statement of net position and the statement of activities. Washington State authorizes the spending of net appreciation on investments of endowments in RCW 24.44. Investments for the endowment funds meet the same criteria as other City funds. The City's investment risk is described in note IV-A.

CITY OF BELLINGHAM
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Legal Basis
Legally Adopted Original General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual Amounts Legal Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	$ 13,480,000	$ 13,480,000	$ 13,516,117	$ 36,117
Retail sales and use	12,820,000	12,820,000	13,318,107	498,107
Business	27,750,381	27,645,381	27,109,401	(535,980)
Other	800,000	860,000	938,015	78,015
Licenses and permits	729,271	729,271	801,609	72,338
Intergovernmental revenue	1,283,718	1,208,180	1,193,343	(14,837)
Charges for services	7,028,136	7,490,681	7,938,371	447,690
Fines and penalties	1,271,100	1,316,100	1,159,922	(156,178)
Investment income	160,425	160,425	(13,543)	(173,968)
Miscellaneous revenue	444,644	444,644	599,236	154,592
Total revenues	65,767,675	66,154,682	66,560,578	405,896
EXPENDITURES				
Current:				
General government services	11,734,076	13,415,761	12,227,033	1,188,728
Public safety	36,683,437	35,777,749	35,545,985	231,764
Physical environment	-	4,430	2,422	2,008
Natural and economic environment	3,567,282	3,976,094	3,471,034	505,060
Social Services	255,902	276,560	238,327	38,233
Cultural and recreation	12,857,101	12,899,686	12,361,892	537,794
Debt service:				
Redemption of general long-term debt	208,213	208,213	-	208,213
Interest and other debt service cost	14,651	14,651	14,651	-
Capital outlay	-	212,900	220,308	(7,408)
Total expenditures	65,320,662	66,786,044	64,081,652	2,704,392
Excess (deficiency) of revenues over (under) expenditures	447,013	(631,362)	2,478,926	3,110,288
OTHER FINANCING SOURCES (USES)				
Transfers in	1,445,582	1,445,582	1,272,053	(173,529)
Transfers out	(3,072,000)	(3,072,000)	(3,071,999)	1
Total other financing sources and (uses)	(1,626,418)	(1,626,418)	(1,799,946)	(173,528)
Net change in fund balances	(1,179,405)	(2,257,780)	678,980	2,936,760
Fund balances - beginning	14,182,602	16,200,070	15,383,510	(816,560)
Fund balances - ending	$ 13,003,197	$ 13,942,290	$ 16,062,490	$ 2,120,200

CITY OF BELLINGHAM
Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balances
Legally Adopted General Fund Budget compared to
Combined GASB 54 General Fund GAAP Basis Budget
For the Year Ended December 31, 2013

REVENUES	
General fund Budgeted	$66,154,682
Budgeted separately and consolidated for GASB 54 reporting -	
Streets	32,067,541
Paths and Trails Reserve	7,895
Park Site Acquisition	2,325
Squalicum Park/Olympic	-
Olympic - Whatcom Falls Park Addition	2,318
Little Squalicum Oeser Settlement	-
First 1/4% Real Estate Excise Tax	1,620,660
Second 1/4% Real Estate Excise Tax	2,217,012
Beyond Greenway Levy	12,143
Greenway III Levy	4,279,408
Park Impact Fees	416,989
Sportsplex	1,279
Combined General Fund Revenues	106,782,252
EXPENDITURES	
General fund Budgeted	66,786,044
Budgeted separately and consolidated for GASB 54 reporting -	
Streets	40,444,332
Paths and Trails Reserve	2,514
Park Site Acquisition	218,894
Squalicum Park/Olympic	-
Olympic - Whatcom Falls Park Addition	27,514
Little Squalicum Oeser Settlement	5,976
First 1/4% Real Estate Excise Tax	2,920,465
Second 1/4% Real Estate Excise Tax	2,268,629
Beyond Greenway Levy	1,201,996
Greenway III Levy	7,018,392
Park Impact Fees	1,461,313
Sportsplex	-
Combined General Fund Expenditures	122,356,069
OTHER FINANCING SOURCES (USES)	
General fund Budgeted	(1,626,418)
Budgeted separately and consolidated for GASB 54 reporting -	(2,027,569)
Combined General Fund other financing sources and uses	(3,653,987)
NET CHANGES IN FUND BALANCES	
General fund Budgeted	(2,257,780)
Budgeted separately and consolidated for GASB 54 reporting -	(16,970,024)
Combined General Fund Net Changes in Fund Balance	($19,227,804)

**Note: The twelve funds delineated above do not meet the definition of a special revenue fund as defined in GASB 54 ¶30-31and by the WA State Auditors office "GASB Statement 54 - Focusing on Special Revenue Funds" publication. Accordingly, they were combined with the general fund for GAAP basis reporting. However, the budgets for these twelve funds and the originally budgeted general fund were legally appropriated and as such are presented as part of the combining and individual fund statements.*

Actuarial valuations for the following pension plans are performed every two years using the Entry Age Normal Cost Method. The most recent valuation was performed December 31, 2012. The next scheduled valuation date is December 31, 2014.

Schedule of funding progress for pension funds

	Valuation date	Actuarial value of plan assets	Actuarial accrued liabilities entry age (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
Firefighters'	12/31/2008	$ 4,762,000	$ 7,385,000	$ 2,623,000	64.5%	N/A	N/A
	12/31/2010	5,441,000	6,570,000	1,129,000	82.8%	N/A	N/A
	12/31/2012	5,555,000	6,382,000	827,000	87.0%	N/A	N/A
Police Officers'	12/31/2008	3,216,000	2,205,000	(1,011,000)	145.9%	N/A	N/A
	12/31/2010	3,134,000	1,899,000	(1,235,000)	165.0%	N/A	N/A
	12/31/2012	$ 3,408,000	$ 1,575,000	$ (1,833,000)	216.4%	N/A	N/A

Schedule of employer contributions for pension funds

	Year ending	Annual required contribution (ARC)	Employer contributions	Percentage contributed
Firefighters'	12/31/2008	$ 372,881	$ 1,158,121	310.6%
	12/31/2009	219,490	1,028,402	468.5%
	12/31/2010	219,490	628,673	286.4%
	12/31/2011	100,391	496,590	494.7%
	12/31/2012	100,391	633,363	630.9%
	12/31/2013	73,616	748,604	1016.9%
Police Officers'	12/31/2008	**	64,815	**
	12/31/2009	**	17,559	**
	12/31/2010	**	150,745	**
	12/31/2011	**	73,432	**
	12/31/2012	**	399,991	**
	12/31/2013	**	$ 263,344	**

*** The annual required contribution is less than zero.*

Actuarial valuations for the following OPEB long-term care plans are performed every two years using the Entry Age Normal Cost Method. The most recent valuation was performed December 31, 2012. The next scheduled valuation date is December 31, 2014.

Schedule of funding progress for OPEB long-term care

	Valuation date	Actuarial value of plan assets	Actuarial accrued liabilities entry age (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
Firefighters'	12/31/2008	$ 1,480,000	$ 20,939,000	$ 19,459,000	7.1%	N/A	N/A
	12/31/2010	1,713,000	23,929,000	22,216,000	7.2%	N/A	N/A
	12/31/2012	2,365,000	24,127,000	21,762,000	9.8%	N/A	N/A
Police Officers'	12/31/2008	2,008,000	14,738,000	12,730,000	13.6%	N/A	N/A
	12/31/2010	2,043,000	16,798,000	14,755,000	12.2%	N/A	N/A
	12/31/2012	$ 2,172,000	$ 16,445,000	$ 14,273,000	13.2%	N/A	N/A

Schedule of employer contributions for OPEB long-term care

	Year ending	Annual required contribution (ARC)	Employer contributions	Percentage contributed
Firefighters'	12/31/2008	$ 1,306,122	$ 1,093,128	83.7%
	12/31/2009	1,400,119	1,059,211	75.7%
	12/31/2010	1,400,119	1,577,876	112.7%
	12/31/2011	1,656,188	1,740,949	105.1%
	12/31/2012	1,656,188	1,590,108	96.0%
	12/31/2013	1,538,195	1,473,609	95.8%
Police Officers'	12/31/2008	926,221	$ 1,096,621	118.4%
	12/31/2009	915,952	852,957	93.1%
	12/31/2010	915,952	692,509	75.6%
	12/31/2011	1,099,976	822,505	74.8%
	12/31/2012	1,099,976	1,085,080	98.6%
	12/31/2013	$ 1,008,853	$ 924,273	91.6%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-53-0010		919,527	919,527	1, 3, 6
Office Of Community Planning And Development, Department Of Housing And Urban Development/ WA State Dept. of Commerce	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	08-F6401-030	1,796		1,796	1
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-13-MC-53-0204		754,501	754,501	1, 2, 3, 6
National Park Service, Department Of The Interior/WA State Dept. of Archaeology	Historic Preservation Fund Grants-In-Aid	15.904		15,000		15,000	1
National Park Service, Department of the Interior	Federal Building Restoration	15.999	Consolidated Appropr Act, 2004 (H.R.2673)		51,909	51,909	1, 5
Violence Against Women Office, Department Of Justice/DVSAS of Whatcom County	Violence Against Women Formula Grants	16.588	2012-WF-AX-0047 2013-0117	28,618		28,618	1
Violence Against Women Office, Department Of Justice	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2011-WE-AX-0025		159,286	159,286	1, 6
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	2012-BU-BX-12062984		10,284	10,284	1
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	BHM-9937(004)/LA8216	15,726		15,726	1
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	BRM-5511(001)/LA7052	4,433		4,433	1, 2
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	HPP-5552(001)/LA7505	13,599		13,599	1, 2
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	HSIP-5510(006)/LA7797	14,184		14,184	1, 2
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	SRTS-0080(015)/LA6661	761,222		761,222	1, 2
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	STPD-5508(003)/LA7831	1,655,828		1,655,828	1
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	STPUS-5511(002)/LA7476	5,878		5,878	1, 2
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	STPUS-5550(002)/LA7953	74,939		74,939	1
Federal Highway Administration (FHWA), Department Of Transportation/ WA State Dept. of Transportation	Highway Planning and Construction	20.205	STPUS-5559(001)/LA8229	8,432		8,432	1
			Total CFDA 20.205	**2,554,241**	**-**	**2,554,241**	1

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

National Highway Traffic Safety Administration (NHTSA), Department Of Transportation/WA Traffic Safety Commission	State and Community Highway Safety	20.600	Law Enforcement Liaison	4,609		4,609	1
National Highway Traffic Safety Administration (NHTSA), Department Of Transportation/WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Impaired Driving/DUI	7,232		7,232	1
National Highway Traffic Safety Administration (NHTSA), Department Of Transportation/WA Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	Seat Belt Emphasis	1,470		1,470	1
Region 10, Environmental Protection Agency/Puget Sound Partnership	Puget Sound Action Agenda Outreach, Education and Stewardship Support Program	66.122	PT-00J17601	3,718		3,718	1
Region 10, Environmental Protection Agency/WA State Dept. of Ecology	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1300088	21,126		21,126	1
Office Of Water, Environmental Protection Agency/WA State Dept. of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1200033	39,354		39,354	1
Office Of Water, Environmental Protection Agency/WA State Dept. of Ecology	Nonpoint Source Implementation Grants	66.460	G1400398	5,353		5,353	1
Office Of Solid Waste And Emergency Response, Environmental Protection Agency	Solid Waste Management Assistance Grants	66.808	X1-00J05201-0		3,104	3,104	1
Department Of Energy	**ARRA -** Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-SC0002224		2,829	2,829	1, 4
Office Of Student Financial Assistance Programs, Department Of Education/Western Washington University & Whatcom CC	Federal Work-Study Program	84.033		5,401		5,401	1
Department Of Education/WA State Library	Race to the Top – Early Learning Challenge	84.412	IG-4540	999		999	1
Department Of Homeland Security/WA State Military Dept., Emergency Management Division	Emergency Management Performance Grants	97.042	EMW-2012-App-00071	47,505		47,505	1
Department Of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2008-FO-10704		21,853	21,853	1
Department Of Homeland Security/ Seattle Fire Dept.	Port Security Grant Program	97.056	EMW-2013-PU-00165-S01	11,616		11,616	1
Department Of Homeland Security/Whatcom County Sheriff's Office, Division of Emergency Management	Homeland Security Grant Program	97.067	2010-SS-T0-0084	54,439		54,439	1
			Total Federal Awards Expended:	**2,802,477**	**1,923,293**	**4,725,770**	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule. *Page 2 of 2*

CITY OF BELLINGHAM, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Bellingham's financial statements. The City uses the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds.

NOTE 2 - PROGRAM INCOME / COSTS

The amounts shown as current year expenditures represent the federal grant, and program income funded portions of the program costs.

NOTE 3 - REVOLVING LOAN PROGRAM

The City administers revolving loan programs under the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program Grant for low income housing acquisitions, development, and rehabilitation. Under these federal programs, repayments to the City are considered program income and loans of such funds are considered expenditures. The amount of loan funds disbursed to program participants for the year from the CDBG Grant was $254,536 and the HOME Grant was $606,294 and are included in this schedule. The amounts of principal and interest received in loan payments for the year for CDBG loans was $502,834 and for HOME loans was $233,889.

NOTE 4 - ARRA

The City has expended funds under one American Recovery and Reinvestment Act (ARRA) grant award during fiscal year 2013.

NOTE 5 - FEDERAL BUILDING

In 2004, the city received a Federal building donation along with a $2.6 million cash award to be used for repair and restoration of the building. The expenditures funded by the original $2.6 million and the interest earnings on these funds will continue to be reported until the cash award has been fully expended. The amount expended this year on Federal building repair and restoration was $51,909, of this amount $3,973 came from interest earnings. The amount of original award remaining is $432,531.

NOTE 6 - AMOUNTS AWARDED TO SUBRECIPIENTS

The City passes some Federal grant award monies through to sub-recipient agencies who deliver grant eligible services such as low income assistance and assistance to victims of domestic violence.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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