



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

City of Bellingham

Whatcom County

For the period January 1, 2015 through December 31, 2015

Published August 11, 2016

Report No. 1017215





Washington State Auditor's Office

August 11, 2016

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,

A handwritten signature in dark ink, reading "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Bellingham
Whatcom County
January 1, 2015 through December 31, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2015-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Bellingham Whatcom County January 1, 2015 through December 31, 2015

2015-001 The City's internal controls over financial statement preparation are inadequate to ensure accurate reporting.

Background

City councilmembers, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified deficiencies in internal controls over financial reporting that affected the City's ability to produce reliable financial statements.

Description of Condition

The City did not ensure an adequate review of the financial statement presentation was performed, which resulted in several misstatements in the financial statements.

This deficiency in internal controls over financial reporting represents a material weakness.

Cause of Condition

The City experienced significant staff turnover during the financial statement preparation process, which strained existing personnel and resources, resulting in a lack of adequate time to prepare and properly review the financial statements. In addition, the City's approach to recognizing assets and liabilities did not take into account information that was available earlier in the year. This caused several misstatements in the financial statements provided for audit.

- The City incorrectly implemented Government Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions as required during fiscal year 2015.
- The City relied on internal summary documents shared between departments to support the value of capital contributions rather than ensuring the amounts reported in the financials statement agreed to

original source documentation. A clerical error within the spreadsheet used as support was not detected prior to financial statement preparation.

- GASB Statement No. 49 Accounting and Financial Reporting for Pollution Remediation Obligations, states "...The government should continue to refine its estimate of its liability as additional information becomes available."

It has been City management's position to wait until after the remedial investigation and feasibility study is reviewed and published by the Department of Ecology before increasing the City's estimated liability. However this did not factor in Port of Bellingham's estimates updated annually by their contracted consultant.

- As actual costs for construction projects can continue to accrue after an asset was put into use, the City's position has been to consider projects as Construction in Progress (CIP) until the project is complete to ensure all costs are reflected. However, this results in substantially completed projects remaining within the CIP balance rather than being reported as a capitalized asset.

Effect of Condition

The material weakness in internal controls resulted in the following misstatements found in the financial statements submitted for audit:

- The incorrect implementation of GASB 68 resulted in a total government wide understatement in assets and deferred outflows of \$3,420,128 and understatement of liabilities and deferred inflows of \$14,347,723.
- The Surface and Stormwater Fund capital grants and contributions was overstated by \$2,370,360.
- The Solid Waste Fund pollution remediation liability was understated by \$3,687,058.
- Construction in Progress (CIP) assets were misclassified in the Wastewater, Surface and Stormwater, and Water funds as the projects were substantially complete and the assets was in use.

All material misstatements were corrected. The City elected not to make classification changes to CIP in the current year as misstatements noted are not qualitatively material.

Recommendations

We recommend the City allocate adequate staff time to research, prepare and review the annual financial report to ensure it is fairly presented, complete, and accurate in compliance with GASB standards and pronouncements.

City's Response

The City acknowledges the misstatements noted above and has updated and corrected the current year financial statements accordingly. The City has also implemented additional internal controls and procedures to better address the areas of concern. See the discussion below for the specific cause, effect, and new internal controls and procedures implemented by the City for the four corrections noted above.

GASB 68 Implementation - Pensions:

GASB 68's effective date was in 2015 and as a new standard there are several effected statements and complex calculations involved in determining the proper balances to reflect. As a new standard with a material balance being added to the financial statements extra resources and scrutiny was required to implement GASB 68. Unfortunately the City experienced staff turnover in key accounting and Public Works personnel during the CAFR drafting process, which strained the City's existing personnel and resources. The complexity of the new GASB 68, the lack of existing audited statements to use as a resource, and the strain on the remaining accounting staff given the vacancies in Public Works and accounting contributed to the City's initial misstatements in this area. The misstatements related to pensions and the related expenses, assets, liabilities, and deferred outflows and inflows of resources have all been corrected after review and discussion with the audit team. The City now has well documented procedures related to implementation of this standard and is working towards rehiring vacant positions so additional reviews and resources can be allocated to the application of this standard in the future.

Capital contributions:

Capital contributions from developers have historically been recorded based on a summarized spreadsheet prepared and provided to the finance department from Public Works staff. The components of this spreadsheet are based on the actual costs incurred by developers in constructing the assets and the total cost is attested to by the developer when they sign off on a standardized form prepared by Public Works. Capital contributions are not based on costs incurred by the City and are not known or anticipated costs so the range can be wide. Capital contributions are donations recorded based on reports provided by the

developer/external third parties. Finance has historically relied on the amounts in the spreadsheet and did not vouch these balances out against the signed developer reports assuming that had occurred in Public Works. There was a clerical error on one line item in the spreadsheet compared to the balance attested to by the developer which was noted during audit testing. Subsequent to this discovery by the audit team, City finance staff requested all of the supporting documents and verified the accuracy of the rest of the capital contributions recorded. Going forward additional internal controls have been incorporated into this process whereby a supervisor will review and sign off on the spreadsheet prepared in Public Works and finance will require supporting documentation for all numbers in the spreadsheet before they are recorded into the City's capital asset system.

GASB 49 Pollution Remediation:

It has been management's position in the past to wait to update the estimate of a pollution remediation liability until one of the specific benchmarks listed in GASB 49 paragraph 13 occurs such as the issuance of an RI/FS. Pollution remediation obligations are subject to a wide range of cost estimates depending on which alternative is selected and it has been management's position in the past to wait to record an additional liability until after the Department of Ecology and the public have weighed in on the preferred alternative--given the often material differences between approaches. The City has recorded a pollution remediation liability for each of the sites in which it is named as a potentially liable party (PLP) and the liability was based on the original estimate determined by the Port, City, and consultants for the Central Waterfront and Cornwall sites, updated for the issuance of an RI/FS, and reduced by the costs incurred each year. This approach was still considered reasonable and was within the allowable confines established in GASB 49.

However, the City also acknowledges that the issuance of the RI/FS for Central Waterfront has taken several years longer than originally anticipated, and accordingly, to avoid "delaying recognition beyond the point at which a reasonable estimate of the range of a component of a liability can be made" the City elected to use the revised cost-estimates and forecasts prepared by Anchor QEA for the Central Waterfront site and the revised cost estimates for the Cornwall Landfill site in 2015. These increases to the pollution remediation obligation balances to match the updated consultant's estimates as of December 31, 2015, were made after the auditors pointed out that there was a difference between the City's estimates of the pollution remediation obligation for these two sites compared to the pollution remediation obligation prepared by the Port of Bellingham. The Port of Bellingham is named as the other PLP on these

two sites and the City develops its pollution remediation obligation from reports provided by the Port and Anchor QEA consulting. The City will continue to update the pollution remediation obligations based on the benchmarks specifically called out in GASB 49 paragraph 13, but we will also update the obligations if a reasonable estimate, such as the estimate provided by the consultants preparing the RI/FS, becomes available sooner.

Construction in Progress Classification:

The City monitors the costs related to capital assets by conferring with the engineers, project managers, and accountants to determine at what stage an asset is substantially complete and should be moved from a construction in progress to a completed asset on the City's financial statements. Attributes such as the project budget (which often span multiple years), the published capital improvement plan (which includes anticipated projects for the next six years), continuing expenses being recorded in the job cost reports related to the project, and reports from the engineers and project managers all contribute to the City's analysis of when to move an asset out of CIP into a completed asset record and start depreciating the asset. Historically the City has been fairly conservative in its determination of when to move an asset from CIP and has waited until the majority of the attributes above indicated the project was complete and wouldn't be incurring additional costs. However, the GASB and the State Auditor's Office BARS manual indicates that the threshold for moving an asset from CIP to a completed asset is when the asset is "substantially complete". The City is developing a more robust and well documented policy to utilize in the future to determine when this substantially complete threshold has been met.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Governmental Accounting Standards Board (GASB) Statement No. 68
Accounting and Financial Reporting for Pensions.

Governmental Accounting Standards Board (GASB) Statement No. 49
Accounting and Financial Reporting for Pollution Remediation Obligations,
Section 13 part e states:

Remediation design and implementation, through and
including operation and maintenance, and post remediation

monitoring. During the design phase of the remediation, the government develops a better understanding of the work to be done and is able to provide more precise estimates of the total remediation outlays. Further information likely will become available at various points until site remediation work is completed, subject only to post remediation monitoring. The government should continue to refine its estimate of its liability as this additional information becomes available.

RCW 3.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

When performing GAGAS financial audits auditors should communicate in the report on internal control over financial reporting and compliance based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material

effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Audit Standards section 115 as follows:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**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, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 26, 2016. As discussed in Note III to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be material weaknesses.

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*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

July 26, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Bellingham
Whatcom County
January 1, 2015 through December 31, 2015**

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) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

July 26, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Bellingham Whatcom County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 26.

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, 2015, 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 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 25 through 35, budgetary comparison information on page 114 through 115, pension plan information on pages 116 through 120, and information on postemployment benefits other than pensions on page 121 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

July 26, 2016

FINANCIAL SECTION

City of Bellingham Whatcom County January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Net Position – Fiduciary Funds – 2015

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Legal Basis – Legally Adopted Original General Fund – 2015

Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balances – Original General Fund compared to Combined GASB 54 General Fund GAAP Basis – 2015

Pension Plan Information – 2015

Information on Postemployment Benefits Other Than Pensions – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

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, 2015. 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 decreased in 2015 as compared to 2014 as evidenced by decrease in the change in net position. Government-wide net position decreased by \$1.4 million a .2% decrease. Business-type activities increased \$9.8 million and government-type decreased \$11.1 million.
- At December 31, 2015, the City's government-wide net position, the amount by which total assets exceed total liabilities, totaled \$696.1 million. Of this amount, \$591.8 million, or 85%, is the net investment in capital assets. Of the remaining net assets, \$3 million is unrestricted and may be used to meet the City's ongoing obligations.
- Total governmental activity revenues increased by \$5.6 million, or 4.6%, from 2014. Business-type activity revenues increased by \$5 million or 7.2%.
- The governmental activity ending net position decreased \$11.1 million from 2014, ending 2015 at \$429.6 million. Of this amount, \$(21.1) million is unrestricted and not available for spending at the City's discretion.

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 discrete component unit, the Bellingham-Whatcom Public Facility District (PFD). The operations of the PFD are legally separate from the City and governed by interlocal agreements between the City and the PFD. Discussion in the MD&A does not include the revenues, expenses, assets, deferred outflow, liabilities or deferred inflows of this discrete component unit.

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 other 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, streets, and many other general administrative type services. Governmental funds account for the operations of a single major fund, the general fund, and 19 other nonmajor governmental funds including 10 special revenue funds, six debt funds, one capital projects fund, and two permanent funds. 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 businesses 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 four major funds: water, wastewater, surface and stormwater utilities, and solid waste, as well as five other funds that are aggregated into the non-major enterprise fund.

Internal service funds are used to report activities that provide supplies and services for many City programs. The internal service funds account for the following nine funds: fleet administration, purchasing materials management, facilities administration, technology and telecom, claims and litigation, unemployment compensation, worker's compensation self-insurance, health benefits, and public works admin and engineering services. 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. Fiduciary funds account for two pension trust type funds and one agency fund. 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 \$696.1 million at December 31, 2015, a decrease of .2% over December 31, 2014.

Net position (in thousands)						
	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current	\$ 101,620	\$ 103,567	\$ 47,879	\$ 47,388	\$ 149,499	\$ 150,955
Noncurrent	49,783	38,771	21,601	20,619	71,384	59,390
Capital assets (net of depr)	<u>370,288</u>	<u>352,143</u>	<u>302,114</u>	<u>286,612</u>	<u>672,402</u>	<u>638,755</u>
Total assets	<u>521,691</u>	<u>494,481</u>	<u>371,594</u>	<u>354,619</u>	<u>893,285</u>	<u>849,100</u>
Deferred Outflow of Resources	<u>4,822</u>	<u>-</u>	<u>1,416</u>	<u>266</u>	<u>6,238</u>	<u>266</u>
Liabilities						
Current	32,638	9,544	10,695	7,953	43,333	17,497
Current portion long-term	6,852	6,725	4,992	5,404	11,844	12,129
Long-term noncurrent	<u>51,033</u>	<u>37,432</u>	<u>89,675</u>	<u>84,727</u>	<u>140,708</u>	<u>122,159</u>
Total liabilities	<u>90,523</u>	<u>53,701</u>	<u>105,362</u>	<u>98,084</u>	<u>195,885</u>	<u>151,785</u>
Deferred Inflow of Resources	<u>6,425</u>	<u>72</u>	<u>1,096</u>	<u>-</u>	<u>7,521</u>	<u>72</u>
Net position						
Net investment in capital assets	362,378	342,990	229,373	215,294	591,751	558,284
Restricted	88,314	70,367	13,005	4,979	101,319	75,346
Unrestricted	<u>(21,127)</u>	<u>27,351</u>	<u>24,175</u>	<u>36,528</u>	<u>3,048</u>	<u>63,879</u>
Total net position	<u>\$ 429,565</u>	<u>\$ 440,708</u>	<u>\$ 266,553</u>	<u>\$ 256,801</u>	<u>\$ 696,118</u>	<u>\$ 697,509</u>

Net investment in capital assets, consisting of land, buildings, streets, and other significant investments, represent 85% of net position. The net investment in capital assets increased by \$33.5 million during 2015.

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 2015, the restricted resources is 14.6% of net position, totaling \$101.3 million.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without restricting constraints, comprises .4% of net position, a decrease of \$60.8 million from 2014.

Changes in net position

In 2015, government-wide net position decreased by \$1.4 million, of which governmental activities decreased by \$11.1 million. Governmental activities total revenues increased by \$5.6 million from 2014. Governmental activities charges for services decreased by \$7.2 million, capital grants and contributions increased \$2.8 million, and general revenues increased \$9.2 over 2014 revenue.

Business-type activities charges for services primarily from utility sources increased by 3.4% to total \$65.1 million. The net position for business-type activity for 2015 increased by \$9.8 million over 2014.

Changes in net position *(in thousands)*

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	\$ 18,982	\$ 26,165	\$ 65,129	\$ 63,005	\$ 84,111	\$ 89,170
Operating grants and contributions	6,183	5,420	548	420	6,731	5,840
Capital grants and contributions	10,457	7,696	7,978	2,413	18,435	10,109
General revenues:					-	-
Property tax	21,921	21,421	-	-	21,921	21,421
Retail sales and use tax	30,321	29,355	-	637	30,321	29,992
Real estate excise tax	3,664	-	-	-	3,664	-
Business tax	29,884	27,649	1,371	1,330	31,255	28,979
Other taxes	1,023	3,508	663	-	1,686	3,508
Investment Income	1,396	1,557	434	775	1,830	2,332
Miscellaneous revenue	1,627	143	55	458	1,682	601
Total revenues	<u>125,458</u>	<u>122,914</u>	<u>76,178</u>	<u>69,038</u>	<u>201,636</u>	<u>191,952</u>
Program expenses:						
General government	\$ 21,383	13,331	-	-	21,383	13,331
Public safety	40,230	41,780	-	-	40,230	41,780
Physical environment	-	-	-	-	-	-
Transportation	20,889	15,314	-	-	20,889	15,314
Natural and economic environment	18,702	12,399	-	-	18,702	12,399
Social Services	159	-	-	-	159	-
Culture and recreation	13,768	13,553	-	-	13,768	13,553
Interest and redemption of LT debt	563	1,930	-	-	563	1,930
Water	-	-	18,327	19,497	18,327	19,497
Wastewater	-	-	17,697	18,841	17,697	18,841
Surface & stormwater	-	-	6,529	6,471	6,529	6,471
Solid waste	-	-	4,639	1,059	4,639	1,059
Medicine	-	-	5,844	7,033	5,844	7,033
Other business type activities	-	-	4,919	5,054	4,919	5,054
Total expenses	<u>115,694</u>	<u>98,307</u>	<u>57,955</u>	<u>57,955</u>	<u>173,649</u>	<u>156,262</u>
Excess or deficiency before any transfers						
or gain (loss) on sale of capital assets	9,764	24,607	18,223	11,083	27,987	35,690
Gain (loss) on sale of capital assets	-	(18)	-	(3)	-	(21)
Transfers	1,715	(1,305)	(1,715)	1,305	-	-
Special item - land contribution	-	-	-	(869)	-	(869)
Change in net position	<u>11,479</u>	<u>23,284</u>	<u>16,508</u>	<u>11,516</u>	<u>27,987</u>	<u>34,800</u>
Net position - beginning	<u>440,709</u>	<u>419,552</u>	<u>256,802</u>	<u>245,285</u>	<u>697,511</u>	<u>664,837</u>
Change in accounting principle	(22,623)	(2,128)	(6,757)	-	(29,380)	(2,128)
Net position - ending	<u>\$ 429,565</u>	<u>\$ 440,708</u>	<u>\$ 266,553</u>	<u>\$ 256,801</u>	<u>\$ 696,118</u>	<u>\$ 697,509</u>

Revenues and expenses – government-wide

In 2015, overall government-wide revenues increased \$10.6 million, from \$191.1 million to \$201.2 million. There were several elements that led to this \$10.6 million increase in revenues but the bulk of the increase was related to business taxes, business-type charges for services, operating grants and contributions, and business-type capital grants and contributions. Business taxes increased \$2.3 million due to the improving local economy and a new tax on healthcare providers. Charges for services for water, wastewater, surface and stormwater, and solid waste increased \$2.1 million in 2015 compared to the prior year due in part to utility rate increases. Operating grants and contributions increased \$128 thousand and capital grants and contributions increased \$5.6 million. The Padden Creek Daylighting and Squalicum Creek Re-Route projects account for the majority of these grant increases.

In 2015, overall government-wide expenses increased by \$17.4 million. Governmental activities experienced an increase in expense of \$17.4 million and business-type activity was flat. Of the \$17.4 million increase in governmental activity expense, \$8.1 million can be attributed to general government, \$5.6 million to transportation, and \$6.3 million to natural and economic environment activities.

Program revenues and expenses – governmental activities

Governmental activities revenue increased by \$5.6 million in 2015, from \$121.6 million to \$127.2 million. Of this increase, \$9.2 million was an increase in general revenues, offset by a \$7.2 million decrease in charges for services, a \$2.8 million increase in capital grants and contributions, and a \$763 thousand increase in operating grants and contributions. General revenue increased from \$82.3 million to \$91.5 million, as previously stated, due to an increase in business taxes and a large increase in real estate excise tax to \$3.7 million. Real estate excise tax has increased dramatically because of the increase in the value of homes and the real estate market being robust. Both operating grants and contributions and capital grants and contributions have increased substantially due to road and bridge projects. Alabama street was updated to include more bike lanes and enhanced crosswalks and a major bridge update was completed on Chestnut Street.

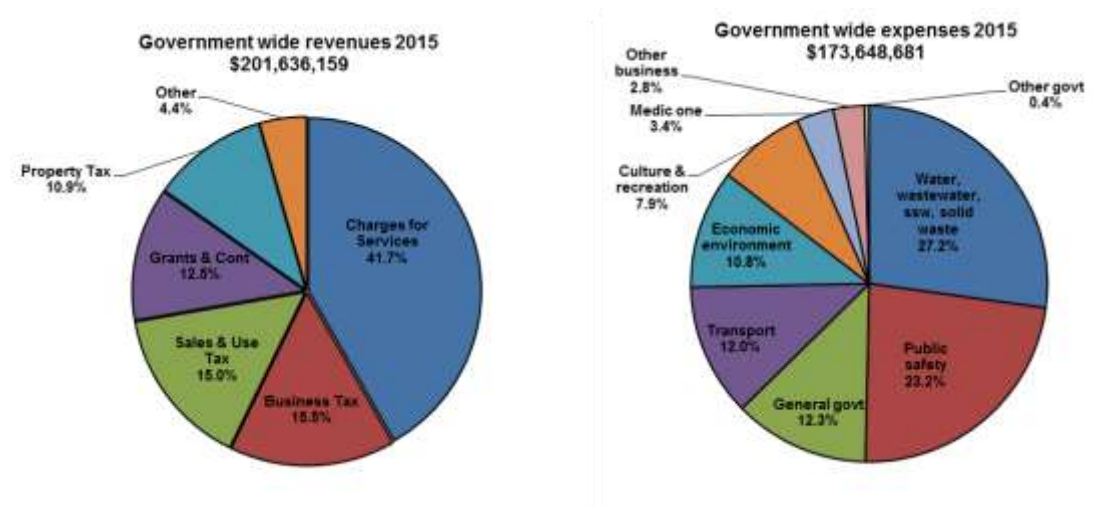
In 2015, expenses for governmental activities experienced an overall increase of 17.7%. Total governmental activities spending was \$115.7 million, a \$17.4 million increase over 2014 spending of \$98.3 million. General government, transportation, and natural and economic environment increased substantially. A large part of the increase in expenses can be attributed to the major road and bridge projects that have been completed on Alabama street and Chestnut Street. The increases in natural and economic environment is mainly due to increases in low income housing projects.

Program revenues and expenses – business-type activities

Business-type activities revenue increased by \$5 million in 2015, from \$69 million to \$74.5 million. This increase is mainly attributable to a \$5.6 million increase in capital grants and contributions and a \$128 thousand increase in operating grants and contributions. Besides grant revenue, charges for services increased also by \$2.1 million. Charges for services increased due to utility rate increases. Both operating and capital grants and contributions increased due to large projects such as Squalicum Creek Re-Route and Padden Creek Daylighting projects.

Overall expenses in business-type activities remained flat compared to the prior year. The largest decrease was medic one and it went down by \$1.2 million mainly due to further decreases in ambulance services cost. From 2014 to 2015 this cost went down by \$1.1 million due to the reorganization that took place in 2014. The County is now the administrator of the county-wide EMS system. Golf course expenses decreased by \$255 thousand, parking by \$194 thousand, and cemetery by \$76 thousand. Surface and stormwater increased by \$58 thousand, development services increased by \$390 thousand, and solid

waste increased by \$3.6 million. Solid waste had the largest increase resulting from the City having to book additional pollution remediation expenses.



Fund level financial analysis

Governmental funds

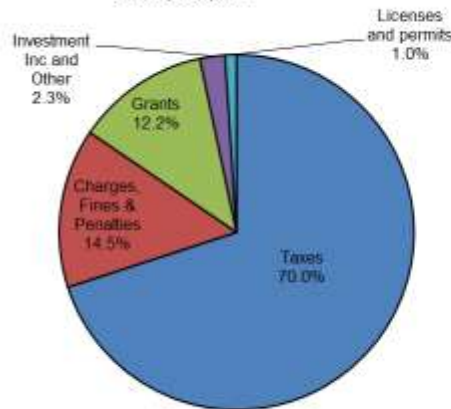
Revenues

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 additional activities in the general fund that were previously reported in the special revenue funds given the guidance of GASB 54. Currently we have 11 special revenue funds reported within the general fund. The presentation and grouping of the 2015 major funds is comparable to the 2014 major funds.

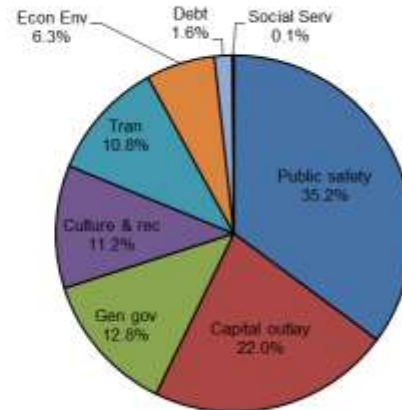
Fund balance in governmental funds increased \$5.2 million. Of this \$5.2 million, \$3.6 million is related to excess revenues over expenditures and this is increased by \$1.6 million in net transfers and general long-term debt proceeds, resulting in a final ending fund balance of \$102.6 million. Overall governmental revenues increased to \$123.2 million from \$120.5 million in 2014. The most notable reason for the increase was an increase of tax revenues from \$81.9 million to \$86.2 million in the governmental funds.

Tax revenue is the City's most significant source of governmental revenue, representing 70% of total governmental revenue and 83.9% 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 increased 5% from 2014 to 2015. Within the legally adopted original general fund, business and occupation taxes had the largest increase and it went from \$27.6 million to \$29.9 million due to increased business activity within the strong local economy.

Governmental fund revenues 2015
\$123,175,281



Governmental fund expenditures 2015
\$119,611,106



Expenditures

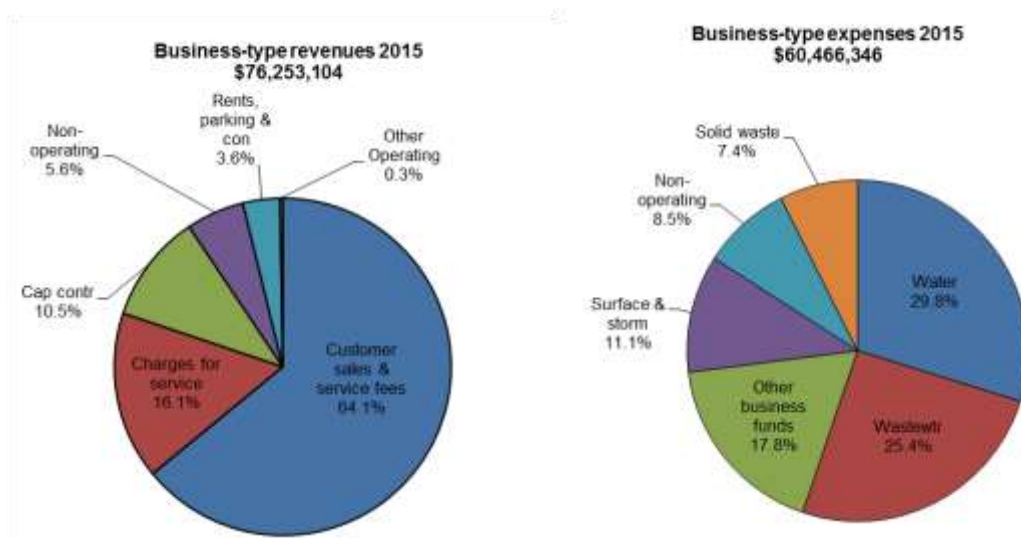
Public safety consisting of fire, police and municipal court accounts for 35.2% of governmental expenditures. General government type expenditures are typically overhead in nature, providing management, accounting, legal, personnel and technical services required by operating programs. They comprise 12.8% of governmental expenditures. Culture and recreation services include most parks and recreation programs, the museum and the library. They represent another 11.2% of governmental expenditures. Additionally, capital outlay represents 22%, natural and economic environment 6.3%, transportation 10.8%, debt expenses represent 1.6%, and social services represent .1% of total governmental expenditures.

Business-type funds

Net position increased by \$16.5 million, for a total of \$266.6 million in business-type funds. Operating revenues increased by 5.3% and operating expenses increased by \$3.3 million going from \$52.1 million to \$55.3 million.

The financial position of the City's business-type funds is largely influenced by the water and wastewater funds. Together they comprise 70.1% of operating revenues, 60.3% of expenses, and 82.7% of net position of each respective total for the enterprise funds.

Medic one and the cemetery are business-type activities that require support from the general fund. In 2015, the cemetery received \$221 thousand 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 V-D).



Financial analysis of City funds

At the end of 2015, the City has 22 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 \$899 thousand due to an increase in tax revenues and an increase in grant revenue.

The fund balance for non-major governmental funds increased by \$4.3 million, due in part to an increase in grant revenue.

The City has nine business-type funds. The four major business-type funds are water, wastewater, surface and stormwater and solid waste. The water, wastewater, and surface and stormwater funds increased their respective net positions in 2015 by \$7.2 million in water, \$4.7 million in wastewater, and \$6.4 million in surface and stormwater. Revenues in all increased due in part to rate increases and an increase in grant revenues from large projects such as Squalicum and Padden Creek daylighting projects. The estimated future pollution remediation costs for the Central Waterfront site, the Cornwall Landfill site, and the Eldridge Municipal Landfill site were all increased in 2015 due to new estimates from Anchor QEA consulting and from a published RI/FS for the Eldridge site in 2015. The solid waste funds ending net position is a negative \$9.4 million, which is a large drop from the net position in 2014 due largely to increased pollution remediation expenses. The City has five non-major enterprise funds: cemetery, golf, parking services, medic one and development services. Net position for the five funds increased by \$1.7 million in 2015 compared to 2014.

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 eleven 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. In 2015, the City changed the budget cycle to every two years instead of one year. The comparison between 2015 and 2014 will be inconsistent due to this budget

change. The adopted general fund budget for expenditures (pre-GASB 54 rollup) was \$137.5 million, the final budget after all amendments was \$140.7 million and the actual expenditures are \$67.6 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 in December 2014.
- Increases and decreases in appropriations to recognize actual program costs.
- New appropriations to acknowledge unanticipated revenues and corresponding expenditures.

Actual revenues are below the budget by \$69 million due to the budget cycle change to every two years. Property, retail sales, business, and other tax revenues came in under budget at \$13.8 million, \$14.1 million, \$29.9 million, and \$937 thousand, respectively. Licenses and permits, intergovernmental revenue, charges for services, fines and penalties, and miscellaneous actual revenues were also below budget at \$876 thousand, \$519 thousand, \$7.4 million, \$1.2 million, and \$451 thousand. Business taxes included both business and occupation taxes (B&O) taxes as well as utility taxes. Both B&O taxes and utility taxes have been strong in 2015 due to increased business activity from the stronger local economy.

Actual expenditures are \$73.1 million below budget, or 48% of the final budgeted amounts.

The legally adopted general fund actual ending fund balance of \$20.6 million is above the projected balance of \$14.3 million, a \$6.3 million difference.

Capital asset and debt administration

Capital assets

At December 31, 2015, the City has invested \$672.4 million in a wide range of capital assets throughout governmental and business-type activities, an increase of \$33.6 million from the previous year. This increase is due in part, to the following activity:

- Land purchases within the City totaled \$8.2 million in 2015.
- Alabama Corridor Safety Phase I project totaled \$4.7 million in 2015.
- North End Regional Stormwater facility project totaled \$4.7 million in 2015.
- Chestnut/Bay and James Street bridge replacements totaled \$3.3 million in 2015.
- Padden Creek Daylighting project totaled \$3.1 million in 2015.
- Water and sewer main replacements totaled \$2.7 million in 2015.
- Water and sewer treatment plant expenses totaled \$2.8 million in 2015.

Capital assets (net of depreciation, in thousands)							
	Governmental activities		Business-type activities		Total		Increase (Decrease)
	2015	2014	2015	2014	2015	2014	2015-2014
Land	\$ 84,640	\$ 76,797	\$ 45,303	\$ 44,883	\$129,943	\$121,680	\$ 8,263
Buildings	28,392	29,372	41,380	42,963	69,772	72,335	(2,563)
Improvements/infrastructure	157,538	152,735	128,776	125,908	286,314	278,642	7,672
Machinery and equipment	14,902	11,255	2,545	2,859	17,447	14,114	3,333
Construction in progress	28,705	25,613	83,904	69,922	112,609	95,535	17,074
Intangible right of ways	56,081	56,043	206	77	56,287	56,120	167
Intangible software	29	329	-	-	29	329	(300)
Total	<u>\$370,287</u>	<u>\$352,143</u>	<u>\$302,114</u>	<u>\$286,612</u>	<u>\$672,401</u>	<u>\$638,755</u>	<u>\$ 33,646</u>

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

In addition to the capital assets shown above the City also has made commitments to fund several parks, streets, water, sewer, and storm projects. Of the current capital commitments \$112.2 million has been spent to date with \$6.4 million remaining.

Long-term debt

At December 31, 2015, the City's total outstanding debt was \$100.5 million, an increase of \$.9 million from 2014. On November 10, 2015, the City issued bonds to advance refund \$3.8 million of outstanding 2006 Water & Sewer Revenue bonds. The advanced refunding will reduce total debt service payments over the next 10 years by \$369 thousand.

Outstanding debt (in thousands)

	Governmental activities		Business-type activities		Total		Increase (Decrease)
	2015	2014	2015	2014	2015	2014	2015-2014
General obligation bonds	\$ 17,830	\$ 18,940	\$ 5,395	\$ 5,855	\$ 23,225	\$ 24,795	\$ (1,570)
Revenue bonds	-	-	66,925	68,780	66,925	68,780	(1,855)
Notes payable	99	110	-	2,700	99	2,810	(2,711)
Government loans	5,312	2,383	4,987	862	10,299	3,245	7,054
Total	<u>\$ 23,241</u>	<u>\$ 21,433</u>	<u>\$ 77,307</u>	<u>\$ 78,197</u>	<u>\$ 100,548</u>	<u>\$ 99,630</u>	<u>\$ 918</u>

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 non-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 in 2013 and the City has maintained this rating through its recent bond issue.

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

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

Economic factors and the 2016 budget

Since mid-2010 there has been a modest recovery from the recession. During the time period of April 2015-April 2016, the recovery has resulted in the addition of approximately 2,700 new jobs in Bellingham, WA. The improvement in the number of employed has resulted in a reduction of the unemployment rate which, stood at 5.9% at December 31, 2015 down from the 2014 rate of 6.5%

- Washington statewide 2015 unemployment rate is 5.7%, down from the 2014 rate of 6.1%
- National unemployment rate for 2015 is 5.3%, down from the 2014 rate of 6.2%

The Seattle Metropolitan Statistical Area (MSA) is the closest proximity to Bellingham for inflation rate indication. In 2015, the Seattle MSA inflation rate is 1.4%, which is above the Class B/C national inflation rate of .1%.

Over the last ten-years net bonded GO debt per capita has decreased from \$463 to \$291.

The City's assessed value per capita has increased from \$103,297 in 2014 to \$106,260 in 2015. With 83,580 citizens, the ratio of the number of City employees is 10.4 per one thousand of the City's population.

The general fund adopted budget for 2016 has \$85.3 million of resources available for appropriation. General fund adopted budget expenditures for 2016 are \$72.2 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 began in 2014, has led 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, 2015

	Governmental	Primary Government		Public
		Business-type		Facilities
	Activities	Activities	Total	District
ASSETS				
Cash and cash equivalents	\$ 18,769,230	\$ 8,216,256	\$ 26,985,486	\$ 119,492
Investments	79,624,370	37,385,103	117,009,473	573,338
Receivables, net	3,226,941	2,277,770	5,504,711	1,229
Restricted assets:				
Cash and cash equivalents	728,714	10,323,316	11,052,030	959,079
Investments	215,388	4,419,242	4,634,630	-
Due from other governments	6,729,649	5,325,605	12,055,254	-
Due from component units	8,301,546	-	8,301,546	-
Prepaid insurance	-	19,000	19,000	40,440
Other prepaid items	117,807	1,113,318	1,231,125	-
Special assessments receivable	52,234	18,718	70,952	-
Inventories	569,547	-	569,547	-
Notes and contracts receivable	18,313,759	-	18,313,759	-
Net pension asset	14,754,476	381,403	15,135,879	-
Capital assets, not being depreciated:				
Land	84,640,306	45,303,179	129,943,485	1,329,860
Improvements	17,614,900	-	17,614,900	-
Construction in progress	28,705,339	83,903,620	112,608,959	-
Intangibles - right of ways	56,080,814	206,111	56,286,925	-
Capital assets, net of depreciation:				
Buildings	28,391,765	41,380,083	69,771,848	14,227,463
Improvements	139,923,467	128,775,899	268,699,366	7,018,811
Machinery and equipment	14,901,697	2,545,470	17,447,167	-
Intangibles - software	29,231	-	29,231	-
Total assets	521,691,180	371,594,093	893,285,273	24,269,712
DEFERRED OUTFLOW OF RESOURCES				
Related to pensions	3,871,230	783,217	4,654,447	-
Deferred loss on refunding	950,571	632,918	1,583,489	-
Total deferred outflow of resources	4,821,801	1,416,135	6,237,936	-
LIABILITIES				
Accounts payable	5,870,801	3,102,210	8,973,011	59,081
Accrued wages and benefits	3,496,277	590,296	4,086,573	-
Due to primary government	-	-	-	8,301,546
Internal balances	252,592	(252,592)	-	-
Due to other governments	7,541	99,205	106,746	211
Other current liabilities	1,904,412	717,251	2,621,663	-
Noncurrent liabilities:				
Net pension liability	20,738,991	6,438,524	27,177,515	-
Net OPEB liability	366,839	-	366,839	-
Due within one year	6,852,236	4,992,326	11,844,562	-
Due in more than one year	51,033,229	89,674,593	140,707,822	9,970,410
Total liabilities	90,522,918	105,361,813	195,884,731	18,331,248

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

CITY OF BELLINGHAM
Government-Wide
Statement of Net Position
December 31, 2015

		<u>Primary Government</u>		<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-type</u>		<u>Public</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Facilities</u>
				<u>District</u>
DEFERRED INFLOW OF RESOURCES				
Special assessments received in advance	52,234	-	52,234	-
Related to pensions	6,373,011	1,095,720	7,468,731	-
Total deferred inflow of resources	<u>6,425,245</u>	<u>1,095,720</u>	<u>7,520,965</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	362,378,047	229,373,343	591,751,390	4,304,178
Restricted for:				
<i>Expendable</i>				
Capital improvements	-	4,996,467	4,996,467	-
Cemetery endowment and preneed service	-	236,850	236,850	-
Debt service	9,276,393	7,390,146	16,666,539	907,894
Environmental remediation	505,283	-	505,283	-
HUD programs	14,383,383	-	14,383,383	-
Library gift	78,452	-	78,452	-
Low income housing	5,974,231	-	5,974,231	-
Parks	10,586,790	-	10,586,790	-
Paths and trails	52,167	-	52,167	-
Pension	14,754,476	381,403	15,135,879	-
Permanent funds	532,871	-	532,871	-
Public, education and gov't access	1,178,113	-	1,178,113	-
Public safety	4,463,667	-	4,463,667	-
Real estate excise tax for improvements	9,140,291	-	9,140,291	-
Tourism	767,421	-	767,421	-
Traffic impact fees for streets	941,022	-	941,022	-
Transportation benefit district	3,317,603	-	3,317,603	-
Waterfront redevelopment	2,867,836	-	2,867,836	-
<i>Nonexpendable</i>				
Permanent funds principal	9,493,936	-	9,493,936	-
Unrestricted	<u>(21,127,164)</u>	<u>24,174,486</u>	<u>3,047,322</u>	<u>726,392</u>
Total net position	<u>\$ 429,564,818</u>	<u>\$ 266,552,695</u>	<u>\$ 696,117,513</u>	<u>\$ 5,938,464</u>

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, 2015

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and	Capital Grants and	Primary Government		Public Facilities	
					Governmental Activities	Business-type Activities		
Governmental activities:								
General government	\$ 21,382,635	\$ 7,662,685	\$ 1,324,556	\$ 20,000	\$ (12,375,394)		\$ (12,375,394)	
Public safety	40,230,259	5,871,325	2,592,300	167,564	(31,599,070)		(31,599,070)	
Physical environment	-	-	264,578	-	264,578		264,578	
Transportation	20,888,508	1,580,528	500,000	9,441,831	(9,366,149)		(9,366,149)	
Natural and economic environment	18,702,452	137,924	1,215,804	-	(17,348,724)		(17,348,724)	
Social services	158,903	-	-	-	(158,903)		(158,903)	
Culture and recreation	13,768,352	3,730,015	286,121	828,021	(8,924,195)		(8,924,195)	
Interest on long-term debt	562,560	-	-	-	(562,560)		(562,560)	
Total governmental activities	115,693,669	18,982,477	6,183,359	10,457,416	(80,070,416)		(80,070,416)	
Business-type activities:								
Water	18,327,036	24,091,668	518,226	1,053,079		7,335,937	7,335,937	
Wastewater	17,696,811	21,299,246	3,661	1,644,343		5,250,439	5,250,439	
Surface and stormwater	6,528,425	8,502,059	25,085	5,280,939		7,279,658	7,279,658	
Solid waste	4,639,246	193,954	1,156	-		(4,444,137)	(4,444,137)	
Cemetery	477,242	318,244	-	-		(158,998)	(158,998)	
Golf course	127,290	156,019	-	-		28,729	28,729	
Parking	1,936,191	2,552,235	-	-		616,044	616,044	
Medic one	5,844,420	4,795,313	-	-		(1,049,107)	(1,049,107)	
Development services	2,378,351	3,220,430	-	-		842,079	842,079	
Total business-type activities	57,955,012	65,129,168	548,128	7,978,361		15,700,644	15,700,644	
Total primary government	\$ 173,648,681	\$ 84,111,645	\$ 6,731,487	\$ 18,435,777		\$ 15,700,644	\$ (64,369,773)	
Component unit:								
Public Facilities District	\$ 1,563,364						\$ (1,563,364)	
General revenues (GR):								
Taxes:								
					21,921,209	-	21,921,209	
Property taxes						-	-	
Sales and use tax					30,320,519	-	30,320,519	1,276,979
Business taxes					29,884,433	1,370,813	31,255,246	-
Real estate excise tax					3,663,842	-	3,663,842	-
Other taxes					1,023,206	663,189	1,686,395	-
Investment income					1,396,110	433,883	1,829,993	7,769
Miscellaneous revenue					1,625,020	55,026	1,680,046	11,286
Transfers					1,715,147	(1,715,147)	-	-
Total general revenues and transfers					91,549,486	807,764	92,357,250	1,296,034
Change in net position					11,479,070	16,508,408	27,987,478	(267,330)
Net position - beginning					440,708,556	256,801,593	697,510,149	6,205,794
Change in accounting principle - GASB 68					(22,622,808)	(6,757,306)	(29,380,114)	-
Net position - ending					\$ 429,564,818	\$ 266,552,695	\$ 696,117,513	\$ 5,938,464

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

CITY OF BELLINGHAM
Balance Sheet
Governmental Funds
December 31, 2015

		Other Non-Major Governmental Funds	Total Governmental Funds
	General		
ASSETS			
Cash and cash equivalents	\$ 8,797,295	\$ 6,147,896	\$ 14,945,191
Investments	42,030,620	19,245,506	61,276,126
Receivables, net	2,932,406	105,041	3,037,447
Due from other funds	419,049	2,079	421,128
Due from other governments	6,239,576	482,151	6,721,727
Due from component units	-	8,301,546	8,301,546
Interfund loans receivable	-	2,971,781	2,971,781
Prepaid items	4,214	51,160	55,374
Special assessments receivable	-	52,234	52,234
Notes and contracts receivable	326,843	17,986,916	18,313,759
Restricted:			
Cash and cash equivalents	674,220	44,890	719,110
Investments	-	215,388	215,388
Total assets	61,424,223	55,606,588	117,030,811
LIABILITIES			
Accounts payable	3,541,576	1,760,396	5,301,972
Accrued wages and benefits	2,834,977	208,308	3,043,285
Due to other funds	142,670	243,092	385,762
Interfund loans payable	3,843,377	-	3,843,377
Due to other governments	4,761	-	4,761
Other liabilities	327,796	-	327,796
Unearned revenue	1,430,108	52,360	1,482,468
Total liabilities	12,125,265	2,264,156	14,389,421
DEFERRED INFLOWS OF RESOURCES			
Special assessments received in advance	-	52,234	52,234
Total deferred inflows of resources	-	52,234	52,234

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

CITY OF BELLINGHAM
Balance Sheet
Governmental Funds
December 31, 2015

	<u>General</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES			
<i>Nonspendable:</i>			
Permanent funds	-	9,493,936	9,493,936
Prepaid items	4,214	51,160	55,374
<i>Restricted:</i>			
Debt service	-	9,276,393	9,276,393
Environmental remediation	-	505,283	505,283
HUD programs	-	14,383,383	14,383,383
Library gift	-	78,452	78,452
Low income housing	-	5,929,053	5,929,053
Parks	10,030,552	490,199	10,520,751
Paths and trails	52,167	-	52,167
Permanent funds	-	526,340	526,340
Public, education and gov't access tv	-	1,178,113	1,178,113
Public safety	-	4,425,676	4,425,676
Public safety donations - Fallen firefighters	37,991	-	37,991
Real estate excise tax for improvements	9,140,291	-	9,140,291
Tourism	-	767,421	767,421
Traffic impact fees for streets	941,022	-	941,022
Transportation benefit district	-	3,317,603	3,317,603
Waterfront redevelopment	-	2,867,186	2,867,186
<i>Committed:</i>			
Legal environmental remediation	1,129,348	-	1,129,348
Streets	7,845,686	-	7,845,686
<i>Assigned:</i>			
Public safety donations	4,142	-	4,142
<i>Unassigned</i>	<u>20,113,545</u>	<u>-</u>	<u>20,113,545</u>
Total fund balances	<u>49,298,958</u>	<u>53,290,198</u>	<u>102,589,156</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 61,424,223</u>	<u>\$ 55,606,588</u>	<u>\$ 117,030,811</u>

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

CITY OF BELLINGHAM
Reconciliation of the Balance Sheet
of Governmental Funds
to the Statement of Net Position
December 31, 2015

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

Total fund balance of governmental funds	\$ 102,589,156
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	357,036,732
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Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

Accrued investment interest	131,770	
Deferred loss on bond refunding	950,571	
Net pension asset	14,752,124	
Deferred outflows of resources related to pension	3,419,596	
Unearned revenue	1,482,468	
		20,736,529

Internal service funds are used by management to charge the cost of certain functions, goods, and services to other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position	21,779,722
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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	(58,224)	
Net OPEB obligation	(366,839)	
Compensated absences	(4,807,462)	
Net pension liability	(16,765,735)	
Deferred inflows of resources related to pension	(5,758,951)	
GASB 49 pollution remediation costs	(24,148,231)	
GASB 70 PFD debt guarantee	(2,272,779)	
GO bonds, loans, and notes payable	(17,141,649)	
Premiums on long-term debt	(1,257,451)	
		(72,577,321)

Net position of governmental activities	<u>\$ 429,564,818</u>
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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, 2015

	General	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property	\$ 18,481,708	\$ 3,467,835	\$ 21,949,543
Sales and use	22,284,692	7,408,171	29,692,863
Business	29,884,433	-	29,884,433
Real estate excise tax (REET)	3,663,842	-	3,663,842
Other	1,023,206	-	1,023,206
Licenses and permits	856,380	428,238	1,284,618
Intergovernmental revenue	11,035,575	3,957,469	14,993,044
Charges for services	13,133,808	3,751,510	16,885,318
Fines and penalties	986,299	72	986,371
Miscellaneous revenues	<u>1,441,395</u>	<u>1,370,648</u>	<u>2,812,043</u>
Total revenues	<u>102,791,338</u>	<u>20,383,943</u>	<u>123,175,281</u>
EXPENDITURES			
Current:			
General government	15,364,903	-	15,364,903
Public safety	36,829,426	5,215,669	42,045,095
Transportation	11,247,290	1,675,868	12,923,158
Natural and economic environment	3,531,669	3,945,983	7,477,652
Social services	154,472	-	154,472
Cultural and recreation	13,269,867	68,194	13,338,061
Debt service:			
Principal	-	1,396,604	1,396,604
Interest and other charges	69,170	475,680	544,850
Capital outlay	<u>21,850,467</u>	<u>4,515,844</u>	<u>26,366,311</u>
Total expenditures	<u>102,317,264</u>	<u>17,293,842</u>	<u>119,611,106</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u> <u>474,074</u>	<u>-</u> <u>3,090,101</u>	<u>-</u> <u>3,564,175</u>
OTHER FINANCING SOURCES (USES)			
General long-term debt proceeds	3,205,000	-	3,205,000
Premiums on bonds sold	330,418	-	330,418
Transfers in	1,171,055	1,363,911	2,534,966
Transfers out	<u>(4,281,062)</u>	<u>(150,000)</u>	<u>(4,431,062)</u>
Total other financing sources and (uses)	<u>425,411</u>	<u>1,213,911</u>	<u>1,639,322</u>
Net change in fund balances	899,485	4,304,012	5,203,497
Fund balances - beginning	<u>48,399,473</u>	<u>48,986,186</u>	<u>97,385,659</u>
Fund balances - ending	<u>\$ 49,298,958</u>	<u>\$ 53,290,198</u>	<u>\$ 102,589,156</u>

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, 2015

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

Net change in fund balances - total governmental funds **\$ 5,203,497**

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 a depreciation expense in the current period.

Purchases	26,366,311	
Contributions donated	1,545,869	
Abandonments	(2,921,408)	
Depreciation	(8,583,396)	
Retirements	(580,646)	
Depreciation on retirements	<u>460,979</u>	
		16,287,709

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

Accrued investment interest	(9,550)	
Net pension asset	3,873,731	
Deferred loss on bond refunding	(73,593)	
unearned revenue	<u>(182,093)</u>	
		3,608,495

Internal service funds are used by management to charge the cost of certain functions, goods, and services to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. (373,438)

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	(17,710)	
Net OPEB obligation	541,108	
Compensated absences	(200,834)	
GASB 49 pollution remediation costs	(11,232,006)	
GASB 70 PFD debt guarantee	(144,778)	
GO bonds, loans, and notes payable	(1,808,397)	
Premiums on long-term debt	<u>(384,577)</u>	
		<u>(13,247,194)</u>

Change in net position of governmental activities **\$ 11,479,070**

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

CITY OF BELLINGHAM
Statement of Net Position
Proprietary Funds
December 31, 2015

	Business-type Activities - Enterprise Funds						Governmental
	Water	Wastewater	Surface and Stormwater	Solid Waste	Other Non-Major Enterprise Funds	Totals	Activities - Internal Service Funds
ASSETS							
<i>Current assets:</i>							
Cash and cash equivalents	\$ 2,829,721	\$ 2,513,626	\$ 73,615	\$ 1,042,015	\$ 1,757,279	\$ 8,216,256	\$ 3,824,039
Investments	11,577,355	12,023,149	353,214	4,999,724	8,431,661	37,385,103	18,348,244
Receivables, net	635,736	819,003	229,593	11,313	582,125	2,277,770	57,724
Due from other funds	1,122,293	111,520	897,215	-	-	2,131,028	478,670
Interfund loans receivable	-	-	-	1,350,000	-	1,350,000	-
Due from other governments	112,544	11,989	5,199,915	1,157	-	5,325,605	7,922
Inventory	-	-	-	-	-	-	569,547
Prepaid items	9,589	-	-	1,101,862	1,867	1,113,318	62,433
Restricted cash and cash equivalents	2,140,602	2,840,658	-	51,941	-	5,033,201	-
Total current assets	18,427,840	18,319,945	6,753,552	8,558,012	10,772,932	62,832,281	23,348,579
<i>Noncurrent assets:</i>							
Restricted cash and cash equivalents	567,496	4,663,322	-	-	59,297	5,290,115	9,604
Restricted investments	1,524,677	2,610,052	-	-	284,513	4,419,242	-
Prepaid insurance	-	-	-	19,000	-	19,000	-
Special assessments receivable	-	18,718	-	-	-	18,718	-
<i>Capital assets, not being depreciated/amortized:</i>							
Land	35,209,579	3,925,297	4,646,668	-	1,521,635	45,303,179	40,102
Construction in progress	6,225,409	62,664,230	14,826,763	-	187,218	83,903,620	211,682
Intangibles - right of ways	-	118,769	87,342	-	-	206,111	-
<i>Capital assets, net of depreciation/amortization:</i>							
Buildings	6,661,551	32,404,357	-	-	2,314,175	41,380,083	1,277,367
Improvements	54,915,051	50,326,870	22,614,187	326,534	593,257	128,775,899	-
Machinery and equipment	591,807	1,500,926	210,932	90,944	150,861	2,545,470	11,717,105
Intangibles - software	-	-	-	-	-	-	4,531
Net pension asset	-	-	-	-	381,403	381,403	2,352
Total noncurrent assets	105,695,570	158,232,541	42,385,892	436,478	5,492,359	312,242,840	13,262,743
Total assets	124,123,410	176,552,486	49,139,444	8,994,490	16,265,291	375,075,121	36,611,322
DEFERRED OUTFLOWS OF RESOURCES							
Related to Pensions	232,911	232,762	113,670	9,599	194,275	783,217	451,634
Deferred loss on refunding	390,935	-	-	241,983	-	632,918	-
Total deferred outflows of resources	623,846	232,762	113,670	251,582	194,275	1,416,135	451,634
LIABILITIES							
<i>Current liabilities:</i>							
Accounts payable	638,072	1,276,070	900,618	30,675	256,775	3,102,210	568,829
Accrued wages and benefits	171,216	186,086	79,107	4,305	149,582	590,296	452,992
Due to other funds	566,535	109,746	1,196,925	4,245	985	1,878,436	766,628
Due to other governments	52,074	22,091	-	-	25,040	99,205	2,780
Interfund loans payable	1,350,000	-	-	-	-	1,350,000	-
Other current liabilities	571,986	2,000	4,320	-	138,945	717,251	646,796
<i>Current portion:</i>							
Bonds payable, net	1,920,000	300,000	-	480,000	-	2,700,000	-
Compensated absences	212,421	207,805	74,767	4,046	254,042	753,081	507,096
Intergovernmental loans payable	102,283	-	232,202	-	-	334,485	-
Claims and judgments payable	-	-	-	-	-	-	780,000
Pollution remediation obligation	-	-	-	1,204,760	-	1,204,760	-
Total current liabilities	5,584,587	2,103,798	2,487,939	1,728,031	825,369	12,729,724	3,725,121
<i>Noncurrent liabilities:</i>							
Bonds payable, net	8,312,335	59,814,436	-	5,188,279	-	73,315,050	6,100,000
Compensated absences	28,218	15,949	7,955	-	-	52,122	119,679
Intergovernmental loans payable	613,700	-	4,039,172	-	12,203	4,665,075	-
Claims and judgments payable	-	-	-	-	-	-	751,118
Pollution remediation obligation	-	-	-	11,642,346	-	11,642,346	-
Net pension liability	2,050,495	2,049,178	1,000,722	84,512	1,253,617	6,438,524	3,973,256
Total noncurrent liabilities	11,004,748	61,879,563	5,047,849	16,915,137	1,265,820	96,113,117	10,944,053
Total liabilities	16,589,335	63,983,361	7,535,788	18,643,168	2,091,189	108,842,841	14,669,174
DEFERRED INFLOWS OF RESOURCES							
Related to Pensions	316,577	316,374	154,502	13,048	295,219	1,095,720	614,060
Total deferred outflow of resources	316,577	316,374	154,502	13,048	295,219	1,095,720	614,060
NET POSITION							
Net investment in capital assets	93,960,870	91,871,350	38,114,517	659,460	4,767,146	229,373,343	13,250,787
Restricted for debt service	1,475,476	5,914,670	-	-	-	7,390,146	-
Restricted for cemetery endowment / preneed	-	-	-	-	236,850	236,850	-
Restricted for capital improvements	1,842,442	3,154,025	-	-	-	4,996,467	-
Restricted for pension asset	-	-	-	-	381,403	381,403	2,352
Unrestricted	10,562,556	11,545,468	3,448,307	(10,069,604)	8,687,759	24,174,486	8,526,583
Total net position	\$ 107,841,344	\$ 112,485,513	\$ 41,562,824	\$ (9,410,144)	\$ 14,073,158	\$ 266,552,695	\$ 21,779,722

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, 2015

	Business-type Activities - Enterprise Funds						Governmental
	Other Non-Major					Activities -	Internal
	Water	Wastewater	Surface and Stormwater	Solid Waste	Enterprise Funds	Totals	Service Funds
Operating revenues:							
Sales of merchandise	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,357,234
Less: Cost of goods sold	-	-	-	-	-	-	(1,347,270)
Customer sales and service fees	21,857,756	18,642,122	-	110,818	8,231,168	48,841,864	-
Charges for services	1,872,487	2,485,291	7,816,121	-	99,017	12,272,916	15,658,242
Rents, parking and concessions	-	-	-	-	2,707,313	2,707,313	-
Insurance premium contribution	-	-	-	-	-	-	13,823,933
Other operating revenues	2,785	-	199,121	-	941	202,847	70,427
Total operating revenues	<u>23,733,028</u>	<u>21,127,413</u>	<u>8,015,242</u>	<u>110,818</u>	<u>11,038,439</u>	<u>64,024,940</u>	<u>30,562,566</u>
Operating expenses:							
General operations	7,656,281	7,139,150	3,171,666	4,321,347	7,829,949	30,118,393	9,803,891
General administration	3,008,816	2,588,320	1,836,590	144,879	2,708,153	10,286,758	7,642,767
Depreciation	2,314,423	2,852,737	816,193	18,725	201,757	6,203,835	1,597,816
Taxes	5,037,764	2,793,627	899,451	-	-	8,730,842	-
Insurance	-	-	-	-	-	-	12,442,674
Claims	-	-	-	-	-	-	1,509,960
Total operating expenses	<u>18,017,284</u>	<u>15,373,834</u>	<u>6,723,900</u>	<u>4,484,951</u>	<u>10,739,859</u>	<u>55,339,828</u>	<u>32,997,108</u>
Operating income (loss)	<u>5,715,744</u>	<u>5,753,579</u>	<u>1,291,342</u>	<u>(4,374,133)</u>	<u>298,580</u>	<u>8,685,112</u>	<u>(2,434,542)</u>
Nonoperating revenues (expenses):							
External operating grants and subsidies	518,226	3,661	25,085	1,156	-	548,128	224,620
Operating assessments and tax levies	-	-	-	1,370,813	663,189	2,034,002	627,656
Investment interest	143,374	161,573	17,117	58,656	92,815	473,535	192,966
Net incr (decr) in fair value of investments	(33,487)	(32,792)	36,581	6,393	(16,347)	(39,652)	(13,777)
Interest expense and related charges	(456,651)	(2,580,314)	-	(157,608)	-	(3,194,573)	(332,055)
Gain (loss) on sale of capital assets	-	-	-	-	34,885	34,885	(53,037)
Other nonoperating revenues	378,047	196,340	489,059	89,169	6,638	1,159,253	405,559
Other nonoperating expenses	(606,968)	(400,103)	(151,810)	(70,223)	(663,189)	(1,892,293)	(165,274)
Total nonoperating revenues (expenses)	<u>(57,459)</u>	<u>(2,651,635)</u>	<u>416,032</u>	<u>1,298,356</u>	<u>117,991</u>	<u>(876,715)</u>	<u>886,658</u>
Income (loss) before contributions and transfers	<u>5,658,285</u>	<u>3,101,944</u>	<u>1,707,374</u>	<u>(3,075,777)</u>	<u>416,571</u>	<u>7,808,397</u>	<u>(1,547,884)</u>
Capital grants and contributions	1,053,079	1,644,343	5,280,939	-	-	7,978,361	-
Transfers in	575,000	-	-	-	1,346,480	1,921,480	1,510,708
Transfers out	(102,244)	(84,000)	(583,586)	(410,000)	(20,000)	(1,199,830)	(336,262)
Change in net position	<u>7,184,120</u>	<u>4,662,287</u>	<u>6,404,727</u>	<u>(3,485,777)</u>	<u>1,743,051</u>	<u>16,508,408</u>	<u>(373,438)</u>
Total net position - beginning	<u>102,892,260</u>	<u>110,056,827</u>	<u>36,248,882</u>	<u>(5,832,250)</u>	<u>13,435,874</u>	<u>256,801,593</u>	<u>26,482,397</u>
Change in accounting principle - GASB 68	(2,235,036)	(2,233,601)	(1,090,785)	(92,117)	(1,105,767)	(6,757,306)	(4,329,237)
Total net position - ending	<u>\$ 107,841,344</u>	<u>\$ 112,485,513</u>	<u>\$ 41,562,824</u>	<u>\$ (9,410,144)</u>	<u>\$ 14,073,158</u>	<u>\$ 266,552,695</u>	<u>\$ 21,779,722</u>

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, 2015

	Business-type Activities - Enterprise Funds						Governmental Activities
					Other Non-Major Enterprise Funds	Total	Internal Service Funds
	Water	Wastewater	Surface and Stormwater	Solid Waste			
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers	\$ 23,941,460	\$ 21,205,550	\$ 8,066,377	\$ 110,219	\$ 10,957,668	\$ 64,281,274	\$ 882,115
Receipts from interfund charges for services	139,333	86,059	125,447	83,036	-	433,875	31,167,121
Payments for merchandise	-	-	-	-	-	-	(1,107,308)
Payments for wages and benefits	(3,806,553)	(3,657,114)	(1,794,834)	(172,612)	(6,962,286)	(16,393,399)	(9,181,661)
Payments for operating and admin expenses	(12,299,384)	(9,430,142)	(3,456,789)	(592,354)	(4,191,002)	(29,969,671)	(20,831,159)
Other receipts	238,714	110,282	363,612	201,795	6,638	921,041	284,350
Other payments	(606,968)	(400,103)	(151,810)	(70,222)	-	(1,229,103)	(165,274)
Net cash provided by (used for) operating activities	7,606,602	7,914,532	3,152,003	(440,138)	(188,982)	18,044,017	1,048,184
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	575,000	-	-	-	1,346,480	1,921,480	953,874
Transfers out	(102,244)	(84,000)	(94,921)	(410,000)	(20,000)	(711,165)	(330,234)
Payments for interest and related charges	-	-	-	(159,571)	-	(159,571)	(332,055)
Principal payments on bonds	-	-	-	(460,000)	-	(460,000)	-
Payments to other governmental units	-	-	-	-	(663,189)	(663,189)	-
Operating grants and loans	518,228	1,071	25,085	6,361	-	550,745	230,214
Interfund receipts for bond repayment	-	-	-	-	-	-	116,208
Interfund loan payments received	-	-	-	-	-	-	247,846
Interfund loans issued	-	-	-	(1,350,000)	-	(1,350,000)	-
Receipts from taxes and subsidies	-	-	-	1,370,813	663,189	2,034,002	629,488
Net cash provided by (used for) noncapital financing activities	990,984	(82,929)	(69,836)	(1,002,397)	1,326,480	1,162,302	1,515,341
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Local improvement district proceeds	-	15,738	-	-	-	15,738	-
Refunding bond issue proceeds	4,035,000	-	-	-	-	4,035,000	-
Principal payments on bonds	(8,550,611)	(300,000)	-	-	-	(8,850,611)	-
Payments for interest and related charges	(536,237)	(2,710,087)	-	-	-	(3,246,324)	-
Contributions from developers	-	766,820	1,645,712	-	-	2,412,532	-
Capital grants and loans	415,811	-	2,519,601	-	-	2,935,412	-
Interfund loan proceeds	1,350,000	-	-	-	-	1,350,000	-
Interfund loans repaid	(247,846)	-	-	-	-	(247,846)	-
Purchases of capital assets	(3,523,976)	(4,134,870)	(12,098,383)	-	(107,371)	(19,864,600)	(3,164,705)
Proceeds from the sale of capital assets	-	-	-	-	65,453	65,453	207,665
Net cash provided by (used for) capital financing activities	(7,057,859)	(6,362,399)	(7,933,070)	-	(41,918)	(21,395,246)	(2,957,040)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from sales and maturity of investments	1,292,231	1,237,144	3,784,858	839,946	637,554	7,791,733	2,288,862
Purchase of investments	(4,271,793)	(4,089,689)	-	-	(2,008,249)	(10,369,731)	(3,046,473)
Interest and dividends received	139,225	156,862	26,023	61,685	91,483	475,278	195,128
Net cash provided by (used for) in investment activities	(2,840,337)	(2,695,683)	3,810,881	901,631	(1,279,212)	(2,102,720)	(562,483)
Net increase (decrease) in cash and equivalents	(1,300,610)	(1,226,479)	(1,040,022)	(540,904)	(183,632)	(4,291,647)	(955,998)
Cash and cash equivalents - beginning of year	6,838,429	11,244,085	1,113,637	1,634,860	2,000,208	22,831,219	4,789,641
Cash and cash equivalents - end of year	\$ 5,537,819	\$ 10,017,606	\$ 73,615	\$ 1,093,956	\$ 1,816,576	\$ 18,539,572	\$ 3,833,643

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, 2015

	Business-type Activities - Enterprise Funds						Governmental
					Other Non-Major Enterprise Funds		Activities Internal
	Water	Wastewater	Surface and Stormwater	Solid Waste	Funds	Total	Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	5,715,744	5,753,579	1,291,342	(4,374,133)	298,580	8,685,112	(2,434,542)
<i>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</i>							
Depreciation	2,314,423	2,852,737	816,193	18,725	201,757	6,203,835	1,597,816
Pension expense	(100,875)	(100,811)	(49,231)	(4,157)	(132,611)	(387,685)	(195,907)
Miscellaneous income	378,047	196,338	489,059	89,169	6,638	1,159,251	284,350
Miscellaneous expenses	(606,968)	(400,103)	(151,810)	(70,222)	-	(1,229,103)	(165,274)
(Increase) decrease in accounts receivable	210,921	78,137	51,135	(599)	(80,319)	259,275	(11,070)
(Increase) decrease in due from other funds	(1,117,813)	(111,520)	(877,247)	-	-	(2,106,580)	(478,670)
(Increase) decrease in inventory of supplies	-	-	-	-	-	-	239,962
(Increase) decrease in prepayments	10,328	60,381	-	1,015,477	(1,059)	1,085,127	(34,884)
Increase (decrease) in accounts payable	234,905	(519,732)	361,915	11,521	(60,845)	27,764	(244,814)
Increase (decrease) in wages and benefits payable	38,856	4,284	21,037	2,592	35,598	102,367	482,368
Increase (decrease) in revenues collected in advance	-	-	-	-	(480)	(480)	-
Increase (decrease) in due to other funds	563,816	109,335	1,196,925	4,245	(19,925)	1,854,396	766,628
Increase (decrease) in due to other governments	-	-	-	-	(433,925)	(433,925)	-
Increase (decrease) in other current liabilities	(9,552)	-	-	-	(10,715)	(20,267)	784,568
Increase (decrease) in other fees and taxes	(25,779)	(6,468)	(3,296)	-	7,006	(28,537)	538
Increase (decrease) in other long-term liabilities	549	(1,625)	5,981	2,867,244	1,318	2,873,467	457,115
Total Adjustments	1,890,858	2,160,953	1,860,661	3,933,995	(487,562)	9,358,905	3,482,726
Net cash provided by (used for) operating activities	<u>\$ 7,606,602</u>	<u>\$ 7,914,532</u>	<u>\$ 3,152,003</u>	<u>\$ (440,138)</u>	<u>\$ (188,982)</u>	<u>\$ 18,044,017</u>	<u>\$ 1,048,184</u>
Noncash investing, capital, and financing activities:							
Net change in fair value of investments	(33,487)	(32,792)	36,581	6,393	(16,347)	(39,652)	(13,777)
Contributions from developers	842,919	877,523	640,145	-	-	2,360,587	-
Fleet donations	-	-	(488,665)	-	-	(488,665)	556,834

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, 2015

	Pension & OPEB Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 2,703,510	\$ 245,986
Invested in government securities	12,971,799	-
Receivables, net	58,998	3,179
Interfund loans receivable	<u>871,596</u>	<u>-</u>
Total assets	<u><u>16,605,903</u></u>	<u><u>249,165</u></u>
LIABILITIES		
Accounts payable	47,807	104,683
Accrued pension benefits	48,203	-
Unearned revenue	<u>30,627</u>	<u>144,482</u>
Total liabilities	<u><u>126,637</u></u>	<u><u>\$ 249,165</u></u>
NET POSITION		
Restricted for pension and OPEB	<u><u>\$ 16,479,266</u></u>	

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, 2015

	Pension & OPEB
	Trust Funds
ADDITIONS	
<i>Contributions:</i>	
Employer contributions	\$ 3,577,590
Nonemployer contributions	<u>127,180</u>
Total trust contributions	<u>3,704,770</u>
<i>Investment income:</i>	
Interest	141,932
Net incr (decr) in fair value of investments	<u>(23,210)</u>
Net investment income	<u>118,722</u>
Total additions	<u>3,823,492</u>
 DEDUCTIONS	
Benefit payments	2,323,233
Administrative expenses	<u>78,636</u>
Total deductions	<u>2,401,869</u>
 Change in net position	1,421,623
Total net position - beginning	<u>15,057,643</u>
Total net position - ending	<u><u>\$ 16,479,266</u></u>

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

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 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 City's discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City and does 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 RCW chapter 36.73. 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. On December 31, 2015, the TBD was dissolved as a separate legal entity with Ordinance No. 2015-12-056. The TBD's rights, powers, functions, and obligations have been assumed by the City and City Council desires to continue the work and function of the TBD as defined in state law and Ordinance No. 2010-07-040. In 2016 the TBD will be included as a governmental fund of the City and will no longer meet the criteria of a component unit.

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 V-B for information on the PFD debt contingency. 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, the PFD qualifies as a discrete component unit.

As a discrete component unit the PFD is reported in its own column in the government-wide basic financial statements.

I-B Basis of presentation - 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 fund resources are not 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 statements. 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 was added as part of the *general fund* presented in the CAFR. Beginning in 2012, eleven additional former special revenue funds were reported in the general fund to comply with GASB Statement No. 54. As of 2015, there are a total of eleven funds in addition to the originally budgeted general fund that roll up as part of the combined *general fund* presented in the CAFR. 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 RSI for the composition of the *general fund*.

The government reports the following four major proprietary funds:

The *water fund* accounts for the activities of the City's largest utility. The revenues are received from the sales of materials, supplies, and services. Expenses are for maintenance and extension of water service systems. This fund also reflects the accounting of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *wastewater fund* accounts for the activities of the City's second largest utility. The revenues are received from the sales of materials, supplies, and services. Expenses are for maintenance and extension of sewer service systems. This fund also reflects 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.

Additionally, the government reports the following fund types as separate columns in the basic financial statements:

Internal service funds account for fleet administration, purchasing and materials, facilities administration, technology and telecommunications, claims and litigation, employee benefits, and PW administration and engineering. 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.

Fiduciary fund types:

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 *full 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within 90 days of the end of the current fiscal period for grant revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. 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, deferred outflows/inflows of resources, and net position/fund balances

Deposits and investments

The City's cash and cash equivalents are defined as any funds that are available immediately or within 90 days. These funds consist of imprest cash on hand, bank deposits, certificates of deposits, and deposits with the local government investment pool (LGIP).

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 LGIP operates in accordance with appropriate state laws and regulations. The reported value of the LGIP is the same as the fair value of the pool shares. Investments are reported separately on the balance sheet. 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
- CDBG grant
- Drake note
- Governmental debt service
- Guaranty deposit
- Accounts payable
- Payroll clearing

Receivables

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services. Receivables have been recorded net of an allowance for uncollectible amounts. Allowances for uncollectible amounts are calculated as a write-off of bad debt expense.

- 1) Interest receivable consists of amounts earned, but not received, on investments.
- 2) Notes and contracts receivable consists of principal amounts owed on open accounts from private individuals or organizations for goods and services rendered.
- 3) Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties.
- 4) During the year, property tax revenues are recognized when received. There is no allowance for uncollectible taxes. The City considers delinquent taxes fully collectible.

Interfund activity

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."

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 which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life 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. All depreciable assets are depreciated using the straight line method.

Asset category	Asset threshold	Useful life (years)
Land	Any amount	No limit
Buildings	\$ 50,000	20-50
Equipment:		
Fleet replacement	5,000	3-25
Machinery and equipment	10,000	3-25
Network IT/electronics /communications	25,000	3-25
Intangible Software	50,000	7
Improvements:		
Infrastructure	50,000	20-50
Leasehold	50,000	10
Other	50,000	5-50

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.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expenditure until consumed.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as a revenue until acquired.

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. Unused vacation is payable upon termination of employment. Upon retiring, contractual limitations have been imposed on PERS I employees to limit vacation payout to a maximum of 240 hours. Currently, certain bargaining groups (by individual contracts) are also eligible for an annual vacation leave cash out program. Employees with accumulated banks of at least 88 hours on October 15 of each of year, have the option of cashing out a minimum of 8 hours to a maximum of 40 hours of vacation leave accumulated. Employee banks will be reduced by the number of hours cashed out and balance of at least 80 hours of accrued vacation leave must remain in the bank when the transaction is complete. 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 annual optional sick leave cash out program. Employees with

accumulated banks of at least 480 hours on December 15 of each year, have the option of cashing out 25 percent of sick leave hours accumulated and not used in the prior twelve-months. Employees with accumulated banks of at least 720 hours on December 15 of each year, have the option of cashing out 50 percent of sick leave hours accumulated and not used in the prior twelve-months. 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Bellingham Firefighters', City of Bellingham Police Officers', and the Washington State Department of Retirement Systems and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other post-employment benefits (OPEB)

Lifetime full medical and long-term care coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability for OPEB is reported in the government-wide statements. The actual health costs are reported as expenditures in the fiduciary pension funds.

Long-term obligations

In the government-wide financial statements and proprietary 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, 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.

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.

Contributions 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 data/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, the City 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 balance for the general fund is unassigned. The general fund is the only fund that can have a deficit in unassigned.

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:

<https://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.

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**

Biennial 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.

Biennial appropriated budgets are adopted at the fund level and legal budgetary control is established at the fund level. Legal budgets are adopted for the 11 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 the end of every even year.

The City's budget procedures were created in accordance with RCW 35.34. On or before November 1, every even number year, the Mayor submits a proposed budget to the City Council for the following odd and even number years. 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 Finance Director. 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 Finance Director, designated by the Mayor, authorizes transfers of 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 simple majority, after first holding public meetings providing the public the opportunity to speak.

At the end of each two year budget cycle, the City may re-appropriate budget for outstanding encumbrances at December 31, into the following budget cycle. Encumbrances are committed amounts for goods and services ordered or contracted.

II-B Deficit fund equity

As of December 31, 2015, the following funds reported deficits in fund balance or fund equity:

Fund 440 – The solid waste fund has a deficit net position of \$9.4 million. This deficit is due to 1) In 2005 the City issued bonds totaling \$8.7 million, and in 2014 issued bonds totaling \$5.5 million to advance refund and defease bonds maturing in years 2020-2025. The *solid waste fund* has a long-term bond payable liability of \$5.7 million at December 31, 2015. The purpose of the 2005 bonds was 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 \$11.64 million at December 31, 2015. 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. See note V-C for further discussion on pollution remediation.

Fund 530 – The facilities administration fund has a deficit net position of \$4.9 million. This deficit is largely 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. The *facilities administration fund* has a long-term bond payable liability of \$6.1 million at December 31, 2015. The deficit widened with the recognition of the net pension liability of \$983 thousand with the implementation of GASB 68 in the current year.

Fund 570 – The Public Works Admin and Engineering fund has a deficit net position of \$1.8 million. As an internal service fund this fund provides services to other funds within the government and is reimbursed based on an allocation for these costs. The recovery costs charged to the funds that received labor and benefits from fund 570 was an estimate of the actual costs incurred which however, the estimate was too low in 2015 to recover all costs incurred. In 2016 the City will recover shared costs by allocating the actual costs incurred in fund 570 amongst the funds receiving the benefits. This should help eliminate this deficit. Additionally, there is a deficit in this fund because of the net pension liability of \$1.4 million. This liability is a result of GASB 68's implementation and has been allocated to this fund based on the employees home-funded here.

II-C Excess of expenditures over appropriations

As of December 31, 2015, 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 172 - Beyond greenways - In 1997, the City of Bellingham passed Ordinance 1998-02-004 creating the *beyond greenways* fund. The fund was created to separately account for a voter approved nine year property tax levy, for acquisition, improvements, and maintenance of greenways areas. On December 14, 2015, the Bellingham City Council passed Resolution 2015-12-057, dissolving the *beyond greenways* fund as the tax levy collections were fully expended.

Fund 123 - Park site acquisition - In 1975, the City of Bellingham passed Ordinance 8414, creating the *park site acquisition* fund. The fund was created to account for fees charged on development of subdivision lots to be used for park land acquisitions. On April 30, 2015, the Bellingham City Council passed Resolution 2015-05-021, dissolving the *Park Site Acquisition* fund. Park Impact fees and the *park impact fee* fund replaced the program accounted for in *park site acquisition* fund.

III-B Implementation of new Governmental Accounting Standards Board (GASB) pronouncements

Effective for fiscal year 2015 reporting, the City adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 68 *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 redefines net pension liability, creates new financial statement classifications deferred inflows and deferred outflows of resources, and requires recording the City's proportionate share of the state sponsored retirement plan net pension liability, or asset, on the City's government-wide financial statements.

Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, made by the City to the state sponsored retirement plan after the measurement date of the state's net pension liability.

Implementation of GASB Statement 68 resulted in an adjustment to the government-wide net position, for the State and City pension plans, in the amount of \$29,380,114, an addition of net pension liability in the amount of \$27,177,515, and an addition to the existing net pension asset bringing the total net pension asset to \$15,135,759 as of 12/31/2015.

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 in excess of \$250,000.

Investments

The City invests excess and inactive funds, in accordance with City Investment Policy and Washington State statute, RCW 35A.40.060. The government utilizes a pooled investment concept for all its funds to maximize its investment program. Investments are valued at fair value as of December 31, 2015 and Investments with a purchase life of less than one year are reported at cost.

The City invests with the Washington State Local Government Investment Pool (LGIP), administered by the Office of the State Treasurer, authorized under RCW Chapter 43.250. The LGIP operates in a manner consistent with the SEC Rule 2a-7. The LGIP's investment objectives are, in priority order: safety of principal, maintaining adequate liquidity to meet cash flows, and providing a competitive interest rate relative to other comparable investment alternatives. The LGIP offers 100% liquidity to its participants. The fair value of the position in the LGIP is the purchase price and is reported on the balance sheet as *cash and cash equivalents*.

Interest rate risk - Interest rate risk is the risk that changes in interest rates over time may adversely affect the fair value of an investment. To minimize risk of loss arising from interest rate fluctuations, the City purchases a combination of short and longer term investments, normally not to exceed five years, and staggers their maturities. The City intends to hold securities, bonds and certificates of deposits until maturity.

Credit risk - Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City invests primarily in U.S. government debt securities which are considered the safest fixed-income investments available, and Municipal Bonds that hold one of the three highest credit ratings of a nationally recognized rating agency as directed by, and in compliance with, state law. The U.S government debt securities include treasury notes with explicitly guaranteed federal government backing and government sponsored agency securities with implicitly guaranteed federal government backing.

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Per the City's Investment Policy, the City diversifies its investments by security type and institution with no more than 50% of the City's total investment portfolio invested in a single security type or with a single financial institution. At year-end the City holds four investment securities, exceeding 5% of the City's total investment portfolio, in the following implicitly guaranteed federal government sponsored agency securities; FHLB, FNMA, FHLMC, and FFCB.

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 are conducted on a delivery-versus-payment (DVP) basis and are held in Safekeeping with U.S. Bank. All of the City's investments are insured or registered in the name of the City, or held by the City or its agent in the City's name.

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

Fair value of deposits and investments at December 31, 2015

Deposit and investment type / issuer	Fair value	Maturity period			% of total investments	Moody's rating
		≥ 3 months	4-12 Months	1-5 years		
Cash and cash equivalents						
Local Government Investment Pool (LGIP)	\$ 24,957,778	\$ 24,957,778	\$ -	\$ -		
Deposits	17,107,805	17,107,805	-	-		
Total cash and cash equivalents	42,065,583	42,065,583	-	-		
Investments at fair value						
U.S. Treasury Obligations:						
U.S. Treasury Notes	10,012,305	-	5,010,545	5,001,760	7.41%	Aaa
U.S. Government Agency Securities:						
Federal Home Loan Bank (FHLB)	19,030,590	5,026,890	4,995,145	9,008,555	14.08%	Aaa
Federal National Mortgage Association (FNMA)	54,806,355	5,000,605	10,027,690	39,778,060	40.53%	Aaa
Federal Home Loan Mortgage Corp. (FHLMC)	20,018,770	-	5,039,780	14,978,990	14.81%	Aaa
Federal Farm Credit Bank (FFCB)	19,219,742	-	-	19,219,742	14.22%	Aaa
Municipal Bonds:						
Pierce County School District GO	1,001,030	-	1,001,030	-	0.74%	Aa1
King County WA School District #414	1,998,940	-	-	1,998,940	1.48%	Aaa
King County WA School District #411	249,350	-	-	249,350	0.18%	Aaa
Snohomish County WA School District #16	997,860	-	-	997,860	0.74%	Aa1
Jackson County OR School District #6	3,444,166	-	1,699,031	1,745,135	2.55%	Aa1
Honolulu City & County HI GO	4,410,132	-	1,877,906	2,532,226	3.26%	Aa1
Total investments at fair value	135,189,240	10,027,495	29,651,127	95,510,618		
Total deposits and investments	\$ 177,254,823	\$ 52,093,078	\$ 29,651,127	\$ 95,510,618	100.00%	
Less:						
Fiduciary fund deposits and Investments	(15,921,294)					
Statement of net postion total	\$ 161,333,529					

The discretely presented component unit, Public Facilities District, is included in the table above and is listed separately below.

Public Facilities District	
Cash and cash equivalents	
Cash in bank	\$ 438,648
Local Government Investment Pool	639,923
Total cash and cash equivalents	1,078,571
Investments at fair value	
Federal Agency Securities	522,016
Municipal Bonds	51,322
Total investments	573,338
Total deposits and investments	\$ 1,651,909

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, 2015
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Governmental activities	General	Nonmajor governmental	Internal service	Total
Interest	\$ 69	3,250	\$ 39,318	\$ 42,637
Taxes	283,944	52,359	-	336,303
Accounts	15,513,365	49,432	18,406	15,581,203
Special assessments	-	52,234	-	52,234
Notes and contracts	326,843	17,986,916	-	18,313,759
Due from other governments	6,239,576	482,151	7,922	6,729,649
Due from component unit	-	8,301,546	-	8,301,546
Gross receivables	22,363,797	26,927,888	65,646	49,357,331
Less: allow. for uncollect.	(12,864,972)	-	-	(12,864,972)
Total governmental	\$ 9,498,825	\$ 26,927,888	\$ 65,646	\$ 36,492,359

Business-type activities	Water	Waste water	Surface & stormwater	Solid waste	Nonmajor enterprise	Total
Interest	\$ 28,076	\$ 31,357	\$ 757	\$ 10,714	\$ 18,678	\$ 89,582
Accounts	607,660	787,646	228,836	599	2,058,961	3,683,702
Due from other government	112,544	11,989	5,199,915	1,157	-	5,325,605
Gross receivables	748,280	830,992	5,429,508	12,470	2,077,639	9,098,889
Less: allow. for uncollect.	-	-	-	-	(1,495,514)	(1,495,514)
Total business-type	\$ 748,280	\$ 830,992	\$ 5,429,508	\$ 12,470	\$ 582,125	\$ 7,603,375

Fiduciary funds	Fire Pension	Police Pension	Guaranty Deposit	Total
Interest	\$ 15,933	\$ 11,864	\$ -	\$ 27,797
Taxes	30,627	-	-	30,627
Accounts	574	-	3,179	3,753
Total fiduciary	\$ 47,134	\$ 11,864	\$ 3,179	\$ 62,177

As of December 31, 2015, all special assessments are current.

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. Taxes receivable consist of both property and utility tax.

Unearned revenue as of December 31, 2015

Unearned revenue	General	Special revenue	Capital projects	Permanent	Total
Delinquent property taxes receivable	\$ 283,944	\$ 45,178	\$ 650	\$ 6,532	\$ 336,304
Fines/forfeitures receivable	1,146,164	-	-	-	1,146,164
Total unearned revenue for governmental funds	\$ 1,430,108	\$ 45,178	\$ 650	\$ 6,532	\$ 1,482,468

IV-C Deferred outflows and inflows of resources

Deferred inflows and deferred outflows in the government-wide statements at December 31, 2015, are as follows:

	Governmental activities	Business-type activities	Total
Deferred Outflows			
<i>Pension Plans:</i>			
Payments made subsequent to measurement date	\$ 1,974,470	\$ 399,470	\$ 2,373,940
Difference between expected and actual experience	1,701,718	344,287	2,046,005
Changes in proportionate share	160,096	32,390	192,486
Changes in plan assumptions	34,946	7,070	42,016
Deferred loss on refunding	950,571	632,918	1,583,489
Total deferred outflows of resources	\$ 4,821,801	\$ 1,416,135	\$ 6,237,936
Deferred Inflows			
<i>Pension Plans:</i>			
Changes in proportionate share	\$ 78,360	\$ 13,472	\$ 91,832
Difference between expected and actual investment earnings	6,294,651	1,082,248	7,376,899
<i>Special assessments:</i>			
Revenue received in advance of assessment date	52,234	-	52,234
Total deferred inflows of resources	\$ 6,425,245	\$ 1,095,720	\$ 7,520,965

IV-D Property taxes

In November 2001, the state voters approved Initiative 747, modifying RCW 84.55 and Referendum No. 47, reducing the maximum levy increase to 1% for property taxes, 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 2015 was 1.591%. Council authorized a 1% increase for 2015.

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 2015				
Assessment	Type	Valuation	Rate/\$1,000	Tax
General fund		9,301,737,832	1.5610153954	14,520,156
Fire pension		9,301,737,832	0.2249900006	2,092,798
New What RDA LIFT		9,301,737,832	0.0039874818	37,091
Total councilmatic			1.7899928778	16,650,045
Affordable Housing	voter approved	9,301,737,832	0.3225203778	3,000,000
Greenways III - parks	voter approved	9,301,737,832	0.5169399618	4,808,440
Total voter approved			0.8394603396	7,808,440
Total assessments			2.6294532174	24,458,485

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. It's not until this time in February that the property tax revenue and receivable are recognized. 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. In 2013, the levy began providing \$3 million a year for Low Income Housing Initiatives.

IV-E Capital assets

Capital asset activity for the year ended December 31, 2015, is summarized as follows:

Primary government				
Governmental activities	Beginning balance 1/1/2015	Additions	Reductions	Ending balance 12/31/2015
Capital assets not being depreciated:				
Land	\$ 76,797,165	\$ 7,843,141	\$ -	\$ 84,640,306
Improvements	17,614,900	-	-	17,614,900
Construction in progress	25,612,714	14,916,861	(11,824,236)	28,705,339
Intangibles - right of ways	56,042,744	38,070	-	56,080,814
Total capital assets, not being depreciated	176,067,523	22,798,072	(11,824,236)	187,041,359
Capital assets being depreciated/amortized:				
Buildings	47,058,755	-	(112,430.00)	46,946,325
Improvements other than buildings	238,762,911	11,887,151	-	250,650,062
Machinery and equipment	25,253,195	5,845,294	(1,977,664)	29,120,825
Intangibles - software	3,693,221	-	-	3,693,221
Total capital assets being depreciated/amortized	314,768,082	17,732,445	(2,090,094)	330,410,433
Less accumulated depreciation/amortization for:				
Buildings	(17,686,997)	(867,563)	-	(18,554,560)
Improvements other than buildings	(103,643,113)	(7,083,482)	-	(110,726,595)
Machinery and equipment	(13,998,002)	(1,930,850)	1,709,724	(14,219,128)
Intangibles - software	(3,364,672)	(299,318)	-	(3,663,990)
Total accumulated depreciation/amortization	(138,692,784)	(10,181,213)	1,709,724	(147,164,273)
Total capital assets, being depreciated/amortized, net	176,075,298	7,551,232	(380,370)	183,246,160
Governmental activities capital assets, net	<u>\$ 352,142,821</u>	<u>\$ 30,349,304</u>	<u>\$ (12,204,606)</u>	<u>\$ 370,287,519</u>

Business-type activities	Beginning balance 1/1/2015	Additions	Reductions	Ending balance 12/31/2015
Capital assets not depreciated/amortized:				
Land	\$ 44,882,902	\$ 420,277	\$ -	\$ 45,303,179
Construction in progress	69,922,121	18,891,952	(4,910,453)	83,903,620
Intangibles - right of ways	77,342	128,769	-	206,111
Total capital assets, not being depreciated/amortized	114,882,365	19,440,998	(4,910,453)	129,412,910
Capital assets depreciated/amortized:				
Buildings	94,525,618	-	-	94,525,618
Improvements other than buildings	218,914,978	7,136,940	(6,416)	226,045,502
Machinery and equipment	6,919,226	69,040	(165,010)	6,823,256
Intangibles - software	534,878	-	-	534,878
Total capital assets, being depreciated/amortized	320,894,700	7,205,980	(171,426)	327,929,254
Less accumulated depreciation/amortization for:				
Buildings	(51,562,509)	(1,583,026)	-	(53,145,535)
Improvements other than buildings	(93,007,463)	(4,268,557)	6,417	(97,269,603)
Machinery and equipment	(4,059,977)	(352,252)	134,443	(4,277,786)
Intangibles - software	(534,878)	-	-	(534,878)
Total accumulated depreciation/amortization	(149,164,827)	(6,203,835)	140,860	(155,227,802)
Total capital assets, being depreciated/amortized, net	171,729,873	1,002,145	(30,566)	172,701,452
Business-type activities capital assets, net	<u>\$ 286,612,238</u>	<u>\$ 20,443,143</u>	<u>\$ (4,941,019)</u>	<u>\$ 302,114,362</u>

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

Governmental activities

General governmental	\$ 331,965
Public safety	621,820
Transportation	6,196,243
Cultural and recreational	1,367,383
Economic environment	65,986
Internal service fund capital assets are charged to various functions based on the usage of the assets	1,597,816
Total depreciation expense - governmental activities	<u>\$ 10,181,213</u>

Business-type activities

Cemetery	\$ 2,940
Water	2,314,423
Wastewater	2,852,737
Storm and surface water	816,193
Solid waste	18,725
Golf	31,684
Parking	96,305
Medic one	69,202
Development services	1,626
Total depreciation expense - business-type activities	<u>\$ 6,203,835</u>

Capital asset activity for the year ended December 31, 2015, is summarized as follows:

Discretely presented component unit				
Bellingham-Whatcom Public Facility District	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015
Capital assets not depreciated:				
Land	\$ 1,329,860	\$ -	\$ -	\$ 1,329,860
Total assets not depreciated	1,329,860	-	-	1,329,860
Capital assets depreciated:				
Buildings	19,094,610	-	-	19,094,610
Improvements other than buildings	9,070,078	-	-	9,070,078
Total assets being depreciated	28,164,688	-	-	28,164,688
Less accumulated depreciation for:				
Buildings	(4,403,909)	(463,238)	-	(4,867,147)
Improvements other than buildings	(1,774,413)	(276,854)	-	(2,051,267)
Total accumulated depreciation	(6,178,322)	(740,092)	-	(6,918,414)
Total capital assets being depreciated, net	21,986,366	(740,092)	-	21,246,274
Public Facilities District capital assets, net	<u>\$ 23,316,226</u>	<u>\$ (740,092)</u>	<u>\$ -</u>	<u>\$ 22,576,134</u>

IV-F 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, 2015				
	Interfund loans receivable	Interfund loans payable	Due from other funds	Due to other funds
General	\$ -	\$ 3,843,377	\$ 419,049	\$ 142,670
Nonmajor governmental	2,971,781	-	2,079	243,092
Water	-	1,350,000	1,122,293	566,535
Wastewater	-	-	111,520	109,746
Surface and storm	-	-	897,215	1,196,925
Solid Waste	1,350,000	-	-	4,245
Nonmajor enterprise	-	-	-	985
Internal service	-	-	478,670	766,628
Fiduciary	871,596	-	-	-
Total government-wide	<u>\$ 5,193,377</u>	<u>\$ 5,193,377</u>	<u>\$ 3,030,826</u>	<u>\$ 3,030,826</u>

Internal balances between governmental activities and business type activities \$ 252,592

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 \$871,596 remaining on this loan at year-end, and of that amount \$656,369 will not be repaid in 2016.

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 original loan were interest only with a balloon payment of \$3,232,022 in 2017. In 2013, the Chuckanut Community Forest Park District was formed by voter approval for the express purpose of paying off the Greenways III fund loan (Interlocal Agreement 2013-0624).

The District has levied a property tax of \$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 ten years, beginning in 2014 (effectively superseding the original loan terms and beginning principal payments sooner than previously called for). The loan repayment is based on a variable rate of interest equal to the current rate of return on investments not to exceed 3% annually. In addition, the Chuckanut Community Forest Park District's payment increases from 50% to 90% of the tax levy received over the first three years of the agreement. At year-end there is \$2,971,781 remaining on this loan

In 2014, citizens in Bellingham sued the City of Bellingham and the Chuckanut Community Forest Park District challenging the formation of the Park District. The case is still pending.

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, 2015

Transfers In	Transfers Out								Total
	General	Nonmajor governmental	Water	Wastewater	Surface & storm	Solid waste	Nonmajor enterprise	Internal service	
General	\$ -	\$ 150,000	\$ 92,134	\$ 84,000	\$ 94,921	\$ 10,000	\$ 20,000	\$ -	\$ 451,055
Nonmajor governmental	953,801	-	10,110	-	-	400,000	-	-	1,363,911
Water	575,000	-	-	-	-	-	-	-	575,000
Nonmajor enterprise	1,346,480	-	-	-	-	-	-	-	1,346,480
Internal service	685,781	-	-	-	488,665	-	-	336,262	1,510,708
Total	\$ 3,561,062	\$ 150,000	\$ 102,244	\$ 84,000	\$ 583,586	\$ 410,000	\$ 20,000	\$ 336,262	\$ 5,247,154

IV-G Operating leases

The City leases four radio towers, one off-site data servicing facility, one building, one office space, four storage units, 59 copiers, two fiber optics and two pieces of equipment under 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 2015 were \$508,732. The future minimum lease payments for non-cancelable leases are as follows:

Future minimum lease payments at December 31, 2015

2016	\$ 156,523
2017	142,979
2018	120,509
2019	73,425
2020	67,676
Total	<u>\$ 561,112</u>

IV-H 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, 2015		
	Spent to date	Remaining commitment
Parks projects	\$ 10,190,950	\$ 344,510
Street projects	18,099,822	3,720,692
Water projects	6,221,964	591,958
Wastewater projects	62,664,231	253,122
Stormwater projects	14,826,763	1,505,442
Parkade project	187,219	12,965
	<u>\$ 112,190,949</u>	<u>\$ 6,428,689</u>

Parks projects are financed through REET revenue, greenway levies, park impact fees and grants. Street projects are financed through sales tax revenue, transportation impact fees and grants. Water, wastewater and stormwater projects are financed through utility revenues, bonds, loans (EDI, DOE) and grants. The parkade project is financed through parking fees.

IV-I 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 the following outstanding general obligation bond issues:

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 were used for financing improvements in over 20 City-owned municipal buildings for the purpose of reducing energy consumption by at least 20 percent. The proceeds were deposited in accordance with the bond ordinance into the Facilities fund. 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. In 2013, Congress included the QEC bond tax program subsidy as part of the “sequester” agreement, which took effect March 1, 2013 and will continue through 2021. As a result of the sequester the City has received reduced amounts of subsidy payments from the federal government at the following percentages: 2013 - 8.7% and 7.2%, 2014 - 7.2% and 7.3%, 2015 - 7.3% and 6.8%. These bonds are financed by the Facilities fund, a governmental activity, and will mature in 2025.

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.

2014 LTGO Solid Waste Refunding Series A bonds were issued December 17, 2014 in the amount of \$3,170,000. These bonds are tax exempt and the proceeds of this issue were used for an advance refunding of \$1,545,000 of the 2005 LTGO Solid Waste Series A (tax-exempt) bonds and also \$1,625,000 of the 2005 Solid Waste Series B (taxable) 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 Solid Waste fund, a business-type activity, and will mature in 2025.

2014 LTGO Solid Waste Refunding Series B bonds were issued December 17, 2014 in the amount of \$2,280,000. These bonds are taxable and the proceeds of this issue were used for an advance refunding of the 2005 LTGO Solid Waste Series B (taxable) bonds due in 2016 through 2023 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 Solid Waste fund, a business-type activity, and will mature in 2020.

General obligation bonds outstanding December 31, 2015

Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
2011 LTGO Qual Energy Conservation	\$ 6,480,000	04/27/11	12/01/25	5.43%	\$ 6,100,000
2012 LTGO Refunding	14,370,000	03/29/12	12/01/28	2.00 - 4.00%	11,730,000
Total governmental activities	20,850,000				17,830,000
Business-type activities					
2014 LTGO Solid Waste Rfd'g Series A	3,170,000	12/17/14	12/01/25	3.00 - 4.00%	3,170,000
2014 LTGO Solid Waste Rfd'g Series B	2,280,000	12/17/14	12/01/20	.40 - 2.35%	2,225,000
Total business-type activities	5,450,000				5,395,000
Total general obligation bonds outstanding	<u>\$ 26,300,000</u>				<u>\$ 23,225,000</u>

General obligation bond annual debt service requirements to maturity

Year ending December 31	Governmental activities			Business-type activities		
	Principal	Interest	Total requirements	Principal	Interest	Total requirements
2016	\$ 1,190,000	\$ 723,455	\$ 1,913,455	\$ 480,000	\$ 143,285	\$ 623,285
2017	1,275,000	675,855	1,950,855	485,000	139,925	624,925
2018	1,370,000	624,855	1,994,855	490,000	133,620	623,620
2019	720,000	597,455	1,317,455	495,000	124,555	619,555
2020	770,000	580,855	1,350,855	520,000	113,913	633,913
2021-2025	10,800,000	2,450,800	13,250,800	2,925,000	324,050	3,249,050
2026-2029	1,705,000	76,950	1,781,950	-	-	-
Total	<u>\$ 17,830,000</u>	<u>\$ 5,730,225</u>	<u>\$ 23,560,225</u>	<u>\$ 5,395,000</u>	<u>\$ 979,348</u>	<u>\$ 6,374,348</u>

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.

Notes payable debt outstanding December 31, 2015

Name of issuance	Original issue	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
Drake property note payable	\$ 225,000	12/31/92	12/31/22	7.00%	\$ 99,176
Total notes payable outstanding	<u>\$ 225,000</u>				<u>\$ 99,176</u>

Notes payable annual debt service requirements to maturity

Year ending December 31	Governmental activities		
	Principal	Interest	Total requirement
2016	\$ 11,382	\$ 6,582	\$ 17,964
2017	12,204	5,759	17,963
2018	13,087	4,877	17,964
2019	14,033	3,931	17,964
2020	15,047	2,916	17,963
2021-2022	33,423	2,490	35,913
Total	\$ 99,176	\$ 26,555	\$ 125,731

Government loans

Public Work Trust Fund (PWTF) loans - The City has PWTF construction loan agreements with the State Department of Community Development. The current PWTF loans outstanding are:

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. This loan is for a governmental activity and is financed through street revenues. The loan 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. This loan is for a business-type activity and is financed through water utility revenues. The loan matures in 2022.

Economic Development Investment (EDI) program loans - The City has EDI program loan agreements with Whatcom County. The current EDI loans outstanding are:

West Bakerview Overpass Project EDI loan - The City entered into an EDI program loan agreement with Whatcom County on March 6, 2012 in the amount of \$350,000. The loan was authorized for a seven year period from the date of issue with interest at 1%. The loan was received on March 29, 2012 and 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.

North End Regional Stormwater Facility Project EDI loan - The City entered into an EDI program loan agreement with Whatcom County on February 11, 2014, in the amount of \$1,675,000. The loan was authorized for a seven year period from the date of issue with interest at 1%. The loan was received on December 18, 2015 and proceeds were deposited into Surface and Stormwater fund for the purpose of providing funding support for the North End Regional Stormwater Facility using certain County funds designated for such infrastructure development. The loan is for a business-type activity and is financed through stormwater utility revenues. This loan matures in 2022.

Washington State Department of Ecology (DOE) loans - The City has loan agreements with the Washington State Water Pollution Control Revolving Fund through the Department of Ecology. The current DOE loans outstanding are:

DOE Loan L1200033 - Padden Creek Daylighting - The City entered into a Washington State Water Pollution Control Revolving Fund loan agreement with the DOE on June 22, 2012. Total amount of loan is \$1,426,000. Payments were made to the City on a "reimbursable basis" and the City received the first loan proceeds on May 10, 2013. The proceeds of the loan were deposited into the Surface and Stormwater fund and were partial funding of the Padden Creek Daylighting project. The project period was January 1, 2012 through December 31, 2015 and included daylighting a 2,200 foot long reach of Padden Creek that flowed in a continuous underground tunnel in order to restore the creek's natural channel and permanent riparian vegetation buffers. The project improved water quality by restoring vegetated buffers, natural stream morphology and by providing biological integrity. The loan was authorized for 20 years with interest at 2.6% and repayment of the loan will begin 2017. The loan is for a business-type activity and is financed with stormwater utility revenues. This loan matures in 2036.

DOE Loan L1300017 - Squalicum Creek Reroute Phase I - The City entered into a Washington State Water Pollution Control Revolving Fund loan agreement with the DOE on February 4, 2013. Total amount of loan is \$528,632. Payments were made to the City on a "reimbursable basis" and the City received the first loan proceeds on July 1, 2015. The proceeds of the loan were deposited into the Surface and Stormwater fund. The project period is January 1, 2013 through February 28, 2016. The overall project consists of rerouting large sections of Squalicum Creek around two man-made ponds that currently create the highest thermal loading in Squalicum Creek. By creating a new channel, reactivating remnant channels and reconnecting the stream with its floodplain, this project has the potential to dramatically decrease water temperatures and improve dissolved oxygen levels in Squalicum Creek by routing water flow away from Bug Lake and Sunset Pond. Phase I consist of re-routing and construction of approximately 3,000 feet of new stream channel on Squalicum Creek to increase effective shade 40-60%, and replant approximately 3,000 feet of new stream channel with a 35-50 feet buffer of both sides of the creek. The loan was authorized for 20 years with interest at 2.7% and repayment of the loan will begin 2017. The loan is for a business-type activity and is financed with stormwater utility revenues. This loan matures in 2036.

DOE Loan L1400010 - Squalicum Creek Reroute Phase II - The City entered into a Washington State Water Pollution Control Revolving Fund loan agreement with the DOE on November 6, 2013. Total amount of loan is \$543,536. Payments were be made to the City on a "reimbursable basis" and the City received the first loan proceeds July 1, 2015. The proceeds of the loan were deposited into the Surface and Stormwater fund. The project period is July 1, 2013 through December 31, 2016 and consists of Phase II of the Squalicum Creek Reroute project that will construct approximately 2,200 feet of new channel, improve riparian plantings, and create new emergent wetlands. The loan was authorized for 20 years with interest at 2.3% and repayment of the loan will begin 2017. The loan is for a business-type activity and is financed with stormwater utility revenues. The loan matures in 2036.

DOE Loan L1400025 - Texas/Columbia Storm Mains - The City entered into a loan agreement with the DOE on April 25, 2014. Total amount of loan is \$1,647,000. Payments are made to the City on a "reimbursable basis" and the City received the first loan proceeds December 31, 2014. The proceeds of the loan were deposited into the Surface and Stormwater fund. The project period is January 1, 2014 through June 30, 2018 and consists of replacing stormwater mains at multiple locations with the City of Bellingham, centered within two neighborhoods, Roosevelt, affecting the Whatcom Creek watershed, and Columbia, affecting the Squalicum Creek watershed. The loan was authorized for a five year period with interest at 1.1% and repayment of the loan will begin in 2019. The loan is for a business-type activity and is financed with stormwater utility revenues. This loan matures in 2023.

Washington State Certificate of Participation (COP) - The program was originally created by the Legislature in 1989 (RCW 39.94) to provide the lowest cost financing for state agency purchases by pooling funding needs into larger offerings of securities. In 1998 the Legislature passed legislation to provide local governments access to the program. Local government agencies of all types can finance equipment or real estate needs through the State Treasurer's office subject to existing debt limitations and financial considerations. The State issues Certificates of Participation, and the proceeds of the Certificates are to be used to finance and/or refinance the costs of acquisition of certain personal property for the benefit of certain State Agencies and Local Agencies. Each Agency is required to make Agency Installment Payments to the state pursuant to its Agency Financing Contract for the purchase of its respective items of Property. The Agency Installment Payments payable by the participating Agencies pursuant to the Agency Financing Contracts in the aggregate are at least equal to the corresponding State Payments payable by the state pursuant to the Master Financing Contract.

Lease 0776-1-1 - The City of Bellingham was a participating Local Agency in the State of Washington Certificates of Participation, Series 2014B, dated August 28, 2014. The amount financed was \$867,507 and netted the City of Bellingham \$1,000,000 for the cost of purchasing six new ambulances. Cost of issuance are reflected in the interest rate of 2.12526%. The loan is financed by General fund, for governmental activity, and matures in 2024.

Lease 0776-2-1 - The City of Bellingham was a participating Local Agency in the State of Washington Certificates of Participation, Series 2015B, dated September 24, 2015. The amount financed was \$3,205,000 and netted the City of Bellingham \$3,000,000 for the cost of replacing street light fixtures with LED lights throughout the city. Cost of issuance are reflected in the interest rate of 2.69837%. The loan is financed by street revenues, a governmental activity, and matures in 2027.

Government loan debt outstanding December 31, 2015

Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
PWTF - Street Resurfacing	\$ 2,975,000	7/25/02	7/1/22	0.50%	\$ 1,105,545
EDI - West Bakerview Overpass	350,000	3/29/12	3/29/19	1.00%	202,980
2014 WA State COP - Six Ambulances	867,507	8/28/14	6/1/24	2.13%	798,948
2015 WA State COP - LED Lights	3,205,000	9/24/15	12/1/27	2.70%	3,205,000
Total governmental activities	7,397,507				5,312,473
Business-type activities					
PWTF Water Main Replacement	1,938,000	7/25/02	7/1/22	0.50%	715,983
DOE L1200033 Padeen Creek Daylighting	1,426,000	5/10/13	12/31/36	2.60%	1,426,000
DOE L1300017 Squalicum Crk Re-route Ph I	528,632	7/1/15	12/31/36	2.70%	528,632
DOE L1400010 Squalicum Crk Re-route Ph II	543,536	7/1/15	12/31/36	2.30%	543,536
DOE L1400025 Texas/Columbia Storm Mains	98,205	12/31/14	12/31/23	1.10%	98,205
EDI North End Regional Stormwater Facility	1,675,000	12/18/15	12/18/22	1.00%	1,675,000
Total business-type activities	6,209,373				4,987,356
Total governmental loans outstanding	<u>\$ 13,606,880</u>				<u>\$ 10,299,829</u>

Government loan annual debt service requirements to maturity						
Year ending December 31	Governmental activities			Business-type activities		
	Principal	Interest	Total requirements	Principal	Interest	Total requirements
2016	\$ 450,000	\$ 223,116	\$ 673,116	\$ 334,485	\$ 20,330	\$ 354,815
2017	499,196	171,974	671,170	384,407	100,469	484,876
2018	518,587	156,043	674,630	442,736	77,006	519,742
2019	533,182	139,159	672,341	464,344	75,806	540,150
2020	495,971	121,560	617,531	472,996	66,643	539,639
2021-2025	2,150,537	343,340	2,493,877	1,345,466	251,048	1,596,514
2026-2030	665,000	30,837	695,837	668,971	160,776	829,747
2031-2035	-	-	-	760,100	69,646	829,746
2036	-	-	-	113,851	4,501	118,352
Total	\$ 5,312,473	\$ 1,186,029	\$ 6,498,502	\$ 4,987,356	\$ 826,225	\$ 5,813,581

Revenue bonds

The City issues 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 has the following current revenue bonds outstanding:

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 proceeds were deposited into the Water and Wastewater funds. These bonds are financed by the utility funds, business-type activities. In 2015, \$3,820,000 of these bonds were advance refunded for the maturity years of 2017-2026. The un-refunded portion of these bonds will mature in 2016.

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 proceeds were deposited into the Water fund. The bonds are financed by the utility funds, 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 proceeds were deposited into the Wastewater fund. The bonds are financed by the utility funds, 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 of the 2004 bonds were 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. The proceeds of the 2012 refunding bonds were deposited directly with the refunded debt escrow agent in

accordance with the bond ordinance. The bonds are financed by the utility funds, 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 proceeds were deposited into the Wastewater fund. The bonds are financed by the utility funds, business-type activities, and will mature in 2043.

2015 Water and Sewer Refunding bonds were issued November 10, 2015 in the amount of \$4,035,000. These bonds are tax exempt and the proceeds of this issue were used for an advance refunding of \$3,820,000 of the 2006 Water and Sewer Revenue Improvement bonds and to pay the bond issuance costs. The proceeds of the 2006 bonds 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 proceeds of the 2015 refunding bonds were deposited directly with the refunded debt escrow agent in accordance with the bond ordinance. The bonds are financed by the utility funds, business-type activities, and will mature in 2026.

Revenue bonds outstanding December 31, 2015

Name of issuance	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Business-type activities					
2006 Water/Sewer revenue	\$ 11,330,000	06/15/06	08/01/26	4.00 - 4.50%	\$ 900,000
2008 Water/Sewer revenue	6,040,000	08/21/08	08/01/18	3.00 - 4.25%	2,140,000
2011 Water/Sewer revenue	42,655,000	09/27/11	08/01/41	2.00 - 5.00%	41,125,000
2012 Water/Sewer refunding	3,275,000	03/29/12	08/01/24	2.00 - 4.00%	2,940,000
2013 Water/Sewer revenue	15,785,000	08/27/13	08/01/43	4.25 - 5.00%	15,785,000
2015 Water/Sewer refunding	4,035,000	11/10/15	08/01/26	2.17%	4,035,000
Total revenue bonds outstanding	<u>\$ 83,120,000</u>				<u>\$ 66,925,000</u>

Revenue bond annual debt service requirements to maturity

Year ending December 31	Business-type activities		
	Principal	Interest	Total requirements
2016	\$ 2,220,000	\$ 2,986,467	\$ 5,206,467
2017	2,263,000	2,931,718	5,194,718
2018	2,338,000	2,853,250	5,191,250
2019	1,368,000	2,767,464	4,135,464
2020	1,417,000	2,720,420	4,137,420
2021-2025	7,887,000	12,808,033	20,695,033
2026-2030	9,822,000	11,027,208	20,849,208
2031-2035	12,405,000	8,451,733	20,856,733
2036-2040	15,785,000	5,079,950	20,864,950
2041	11,420,000	1,100,968	12,520,968
Total	<u>\$ 66,925,000</u>	<u>\$ 52,727,211</u>	<u>\$ 119,652,211</u>

To service revenue debt, \$5,230,818 is available in the reserve accounts of the Water and Wastewater enterprise funds as of December 31, 2015 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 4.55%. 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 following table is a summary of the changes in long-term liabilities for the year ending December 31, 2015. 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.

Defeased Debt

On November 10, 2015, the City issued \$4,035,000 in 2015 Water and Sewer Refunding bonds with an interest rate of 2.17%. The City issued the bonds to advance refund \$3,820,000 of the outstanding 2006 Water & Sewer Revenue bonds with interest rates ranging between 4.0% - 4.5%, maturity years of 2017-2026. The proceeds of these bonds were deposited directly with the refunded debt escrow agent and used to purchase securities that were placed in an irrevocable trust to provide for all future debt service payments on the refunded portion of the bonds until the bonds are called. As a result, that portion of the debt is considered defeased and therefore the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$3,820,000 at December 31, 2015. The advanced refunding bond reduced total debt service payment over the next 10 years by \$369,485. This results in an economic gain (difference between the present values of the debt service payments on the old and the new debt) of \$329,453.

Summary of changes in long-term liabilities for the year ending December 31, 2015

Debt type	Beginning balance	Additions	Reductions	Ending balance	Due in ≤ 1 year	Due in > 1 year
Governmental activities						
Bonds payable						
General obligation bonds	\$ 12,840,000	\$ -	\$ (1,110,000)	\$ 11,730,000	\$ 1,190,000	\$ 10,540,000
Premium	872,874	-	(62,348)	810,526	-	810,526
Taxable energy conservation bonds	6,100,000	-	-	6,100,000	-	6,100,000
Total bonds payable	19,812,874	-	(1,172,348)	18,640,526	1,190,000	17,450,526
Government loans	2,383,462	3,205,000	(275,989)	5,312,473	450,000	4,862,473
Premium	142,829	330,418	(26,322)	446,925	-	446,925
Total government loans	2,526,291	3,535,418	(302,311)	5,759,398	450,000	5,309,398
Notes payable	109,790	-	(10,614)	99,176	11,381	87,795
Claims and litigation	969,505	1,101,370	(539,757)	1,531,118	780,000	751,118
Pollution remediation obligation	12,916,225	11,833,683	(601,677)	24,148,231	-	24,148,231
OPEB obligation - long-term care	907,947	2,069,616	(2,610,724)	366,839	-	366,839
Net pension liability	22,605,471	2,355,698	(4,222,178)	20,738,991	-	20,738,991
Component unit debt contingency	2,128,001	144,778	-	2,272,779	-	2,272,779
Compensated absences	4,929,195	769,989	(264,947)	5,434,237	4,420,853	1,013,384
Governmental activities						
long-term liabilities	\$ 66,905,299	\$ 21,810,552	\$ (9,724,556)	\$ 78,991,295	\$ 6,852,234	\$ 72,139,061
Business-type activities						
Bonds payable						
Revenue bonds	\$ 68,780,000	\$ 4,035,000	\$ (5,890,000)	\$ 66,925,000	\$ 2,220,000	\$ 64,705,000
Premium	3,602,471	-	(180,699)	3,421,772	-	3,421,772
Total revenue bonds	72,382,471	4,035,000	(6,070,699)	70,346,772	2,220,000	68,126,772
General obligation bonds	5,855,000	-	(460,000)	5,395,000	480,000	4,915,000
Premium	326,933	-	(29,721)	297,212	-	297,212
Discount	(26,327)	-	2,393	(23,934)	-	(23,934)
Total general obligation bonds	6,155,606	-	(487,328)	5,668,278	480,000	5,188,278
Total bonds payable	78,538,077	4,035,000	(6,558,027)	76,015,050	2,700,000	73,315,050
Government loans	861,849	4,227,790	(102,283)	4,987,356	334,485	4,652,871
Notes payable	2,700,000	-	(2,700,000)	-	-	-
Pollution remediation obligation	9,979,861	3,919,345	(1,052,101)	12,847,105	1,204,760	11,642,345
Net pension liability	7,017,982	731,338	(1,310,796)	6,438,524	-	6,438,524
Compensated absences	751,008	81,633	(15,233)	817,408	753,081	64,327
Total business-type activities						
long-term liabilities	\$ 99,848,777	\$ 12,995,106	\$ (11,738,440)	\$ 101,105,443	\$ 4,992,326	\$ 96,113,117

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 \$119,681 and short-term liabilities of \$507,095 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. The City made a contingent loan commitment for these bonds per contract 2007-0552. Subsequent to year-end these bonds were refunded by the City of Bellingham and reissued as LTGO debt of the City Bellingham with a new interlocal bond agreement between the City and the PFD establishing the new repayment terms. See the subsequent event footnote for further information.

Limited sales tax obligation bonds outstanding December 31, 2015

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	<u>\$ 9,995,000</u>				<u>\$ 9,995,000</u>

Limited sales tax annual debt service requirements to maturity

Year ending December 31	Discretely presented component unit		
	Principal	Interest	Total requirements
2016	\$ -	\$ 409,173	\$ 409,173
2017	-	409,173	409,173
2018	210,000	409,172	619,172
2019	650,000	400,772	1,050,772
2020	725,000	374,773	1,099,773
2021-2025	5,020,000	1,363,417	6,383,417
2026-2027	3,390,000	228,235	3,618,235
Total	<u>\$ 9,995,000</u>	<u>\$ 3,594,715</u>	<u>\$ 13,589,715</u>

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 City made a contingent loan commitment for these bonds per contract 2007-0552. The contingent loan commitment established in contract 2007-0552 was superseded with a new interlocal financing agreement between the City and the PFD in 2016. See the subsequent event footnote for more information.

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 outstanding December 31, 2015

Name of issuance	Original loan amount	Issue date	Maturity date	Interest rates	Debt outstanding
2004 City of Bellingham loan	\$ 9,370,000	11/9/04	12/1/26	2.00 - 4.00%	\$ 6,711,415
2008 City of Bellingham loan	2,800,000	12/31/08	12/31/27	3.25%	1,590,131
Total bonds outstanding	<u>\$ 12,170,000</u>				<u>\$ 8,301,546</u>

Intergovernmental loan annual debt service requirements to maturity

Year ending December 31	Discretely presented component unit		
	Principal	Interest	Total requirements
2016	\$ 490,228	\$ 349,822	\$ 840,050
2017	532,350	326,901	859,251
2018	574,593	307,378	881,971
2019	621,769	255,721	877,490
2020	673,885	231,555	905,440
2021-2025	4,208,868	669,997	4,878,865
2026	1,199,853	16,653	1,216,506
Total	<u>\$ 8,301,546</u>	<u>\$ 2,158,027</u>	<u>\$ 10,459,573</u>

Summary of changes in long-term liabilities for the year ending December 31, 2015

Debt type	Beginning balance	Additions	Reductions	Ending balance	Due in ≤ 1 year	Due in > 1 year
General obligation bonds	\$ 9,995,000	\$ -	\$ -	\$ 9,995,000	\$ -	\$ 9,995,000
for issuance discounts	(26,639)	-	2,049	(24,590)	-	(24,590)
Total bonds payable	9,968,361	-	2,049	9,970,410	-	9,970,410
Notes payable	8,749,768	-	(448,222)	8,301,546	490,228	7,811,318
Total long-term liabilities	<u>\$ 18,718,129</u>	<u>\$ -</u>	<u>\$ (446,173)</u>	<u>\$ 18,271,956</u>	<u>\$ 490,228</u>	<u>\$ 17,781,728</u>

IV-J Restricted component of net position

The government-wide statement of net position reports \$101,318,800 of restricted component of net position, of which \$43,266,190 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 of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has established four risk management internal service funds to account for and finance general liability, property damage, and risks to employee health and welfare. The City's four funds are *Claims and Litigation*, *Unemployment Compensation*, *Workers' Compensation*, and *Health Benefits*.

The risk management internal service funds are funded by charges to the City's other funds, and are based primarily upon the contributing funds' claims experience. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as, inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims.

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 \$217 million in 2015, and \$218 million in 2016. During the current and preceding two years, no City property losses exceeded the City's insurance coverage.

The City purchases excess liability insurance with a \$1 million retained self-insurance limit 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 Unemployment Compensation fund is the source for collecting contributions and making payments to reimburse the State of Washington Employment Security Department, on a quarterly basis, for unemployment compensation claims paid to former employees. State statutes mandate that most other employers pay a tax on employed compensation to support the unemployment insurance system. The City budgets contribution rates to each department based upon past experience and expected future claims.

The Worker's Compensation fund is the source for collecting contributions and making payments towards employee injury claims and other related costs. The City's workers compensation program is self-insured and follows specific guidelines established by the State of Washington. Claims are administered by a third party and the program has reinsurance with a \$550,000 per occurrence deductible. Premiums are assessed to City departments based upon the number of hours worked by covered employees. Rates are based on an internal formula derived from Washington State standard

rates and are revised annually to generate revenues sufficient to cover anticipated expenditures and provide a reserve for incurred but unreported future expenses.

The Health Benefits fund is the source for collecting contributions and paying premiums for employee medical, dental, and vision insurance. Both the City and employee contribute to the cost of medical insurance premiums. The City alone contributes towards dental and vision insurance for full time employees. City departments are charged composite rates to cover the cost of insurance premiums for each employee. Insurance for employees is purchased through employee unions and the Association of Washington City's Employee Benefit Trust.

The City is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Changes in estimated claims liabilities

	Claims and Litigation		Unemployment Comp		Workers' Comp	
	2014	2015	2014	2015	2014	2015
Beginning liability	\$ 1,584,783	\$ 379,504	\$ 160,000	\$ 160,000	\$ 430,000	\$ 430,000
Claims incurred	(1,089,752)	562,102	94,900	100,027	387,541	439,241
Claims paid	(115,527)	(120,489)	(94,900)	(100,027)	(387,541)	(319,241)
Ending liability	\$ 379,504	\$ 821,117	\$ 160,000	\$ 160,000	\$ 430,000	\$ 550,000

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

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, 50% 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 existing 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 is 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 – Under the terms of the 2007-0552 contract between the City and the PFD the City guaranteed the 20 year, \$9,995,000 December 2007 limited sales tax obligation bonds of the PFD, a legally separate discrete component unit of the City, as well as the PFD's \$9,370,000 portion of the 2004 LTGO PFD/Civic/Aquatic refunding bond. Specifically the contract states: "in the event that the District is unable to timely provide for the payment of principal of or interest on any of its Bonds, the City shall lend the District the amount necessary to make such timely payments". This non-exchange financial guarantee extends through the life of both notes which as of December 31, 2015, were set to mature on December 1, 2027, and December 1, 2026, respectively. The total remaining amount of all guarantees extended to the PFD that were outstanding as of December 31, 2015, was \$16,706,415. If the City makes the bond payments on behalf of the PFD, due to the PFD's inability to pay the bond obligations when due, the PFD will be required to repay the City for the amount expended on their behalf along with interest set at the rate of the then-current yield of the City's pooled investments.

Due to the recession and the corresponding decrease in sales tax revenue, the City anticipates that beginning in 2020, revenues and existing unrestricted cash balances will be insufficient to cover all of the PFD debt service requirements. GASB Statement No. 70 requires governments that guarantee the indebtedness of others to recognize a liability related to the guarantee when qualitative factors and historical data indicate that it is more likely than not that a government will be required to make a payment related to the non-exchange financial guarantees it extended for liabilities of other entities. The PFD's ability to make its bond and loan repayments was originally predicated on sales tax revenues increasing year over year at a steady 4.5% increase from 2004 to 2027. Given the effects of the recession beginning in 2008, the PFD has substantially less cash and reserves than the original projections. Staff has been monitoring sales tax growth and legislative changes and as a proactive step to combat the anticipated PFD cash shortfall the City began the process of refunding the PFD 2007 bonds at year end. In order to garner the maximum amount of savings from the low interest rates available the City sought to refund the 2007 PFD bonds as bank-qualified LTGO bonds of the City. As of December 31, 2015, the 2007 bonds remained in the PFD's name and the contingency between the City and the PFD remained in place; but on April 20, 2016, the City refunded the 2007 PFD bonds as LTGO bonds of the City. See the subsequent event footnote for more information.

However, based on the balance in the PFD reserves, the debt repayment schedule, and cash flow projections as of December 31, 2015, the City recorded an additional \$144,778 liability in the statement of net position for the current year change in the PFD debt contingency estimate. Of this total, \$13,363 was the estimated present value of the PFD bond shortfall for the 2007 bonds and the other \$131,415 was the estimated present value of the PFD bond shortfall on the 2004 bonds that are due to the City. The amount of the liability recognized is the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee as of December 31, 2015. The City has not had to make any actual payments on this guarantee. In April 2016 the contingency between the City and the PFD was absolved. Contract 2007-0552 that established the contingent debt liability of the City was superseded by Interlocal agreement 2016-0268. Contract 2016-0268 establishes the new repayment terms between the City and the PFD for all PFD related debt.

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. There are no known or estimated liabilities as the result of these audits as of year-end.

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, 2015, the outstanding balance of these loans is \$3,738, and the resultant contingent liability is \$3,365.

V-C Pollution remediation obligations

The City records pollution remediation obligations as a liability and prepaid pollution costs as an asset. The City 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 remedial investigation and feasibility study (RI/FS) reports are completed and become available and/or when the City receives updated cost-forecast estimates from the Anchor QEA consulting for the Port-City shared Central Waterfront and Cornwall sites, the estimated pollution remediation obligation balances are updated to reflect the revised estimates.

A RI/FS was prepared and issued for the Cornwall Ave Landfill Site in December 2013. The consent decree for the Cornwall Ave Landfill Site was signed in December 2014 which selected the preferred alternative for cleanup. Anchor QEA consulting, the consultants who assist the Port of Bellingham and the City in tracking remediation costs and preparing cost-forecasts subject to the Port-City interlocal for the Cornwall Ave Landfill site and the Central Waterfront site, provided the City with a revised report of the estimated cost-forecasts as of December 31, 2015. The Cornwall Ave Landfill site estimated costs have gone up since the issuance of the RI/FS in 2013 after taking into account an escalation rate inflator of 3.4% per year and adding an additional 25% of project contingency costs which were consistent with Landau Associates recommendations contained in the December 2013 RI/FS. The estimated pollution

remediation obligation for the Cornwall site was updated at year end based on a report prepared by Anchor QEA consulting.

A draft RI/FS was prepared and issued for RG Haley on August 31, 2015. The estimated pollution remediation obligation for the RG Haley site was updated based on the estimated remaining cleanup costs published in this RI/FS.

A RI/FS was published in September 2015 for the Eldridge Municipal Landfill site. The pollution remediation liability estimate for Eldridge was updated to reflect the preferred alternative cost estimate in the RIFS report.

Lastly, the Central Waterfront pollution remediation obligation was increased to match the cost estimates and forecasts prepared by Anchor QEA consulting as of December 31, 2015. Although an RI/FS has not been published for Central Waterfront and a preferred alternative has not yet been selected, the revised cost estimates by Anchor QEA consulting are considered reasonable as a basis for recording the change in the liability. Although it has been management's position in the past to wait to update the estimate of a pollution remediation liability until one of the specific benchmarks listed in GASB 49 paragraph 13 occurs, the City also acknowledges that the issuance of the RI/FS for Central Waterfront has taken several years, and accordingly, to avoid "delaying recognition beyond the point at which a reasonable estimate of the range of a component of a liability can be made" the City elected to use the revised cost-estimates and forecasts prepared by Anchor QEA for the Central Waterfront site.

The RI/FS reports are still in process for the South State Street Manufactured Gas Plant (SSMGP) and the Central Waterfront site where the City of Bellingham has been named as a PLP. Costs will be updated as clean-up actions are finalized for each site or other reasonable estimates can be derived and supported. The pollution remediation obligation is an estimate subject to changes resulting from price increases or reductions, technology, and changes in applicable laws and regulations.

Estimated pollution remediation obligations

Site	Governmental activities	Business-type activities
S. State St Man. Gas Plant (f.k.a Boulevard Park)	\$ 8,428,231	\$ -
Cornwall Ave Landfill Site	-	6,820,389
RG Haley Site	15,720,000	-
Eldridge Municipal Landfill	-	205,012
Central Waterfront	-	2,134,645
Total	<u>\$ 24,148,231</u>	<u>\$ 9,160,046</u>

Estimated pollution remediation prepaid assets

Site	Business-type activities
Cornwall Ave Landfill Site	\$ 473,718
Central Waterfront	628,145
Total	<u>\$ 1,101,863</u>

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 \$8.4 million. The City is negotiating for financial contributions from other potentially liable parties. An RI/FS work plan was issued in August 2010 but a completed RI/FS is still pending.

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 additional Ecology oversight costs on top of the estimate in the RI/FS. Of the \$1.44 million prepaid, \$966 thousand has been exhausted leaving a residual prepaid asset of \$474 thousand. The City's current estimated remaining remediation liability is \$6.88 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 \$6.40 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.

A draft RI/FS was prepared and issued for RG Haley on August 31, 2015. The estimated pollution remediation obligation for the RG Haley site was updated based on the estimated remaining cleanup costs published in the RI/FS. The RI/FS was finalized and published on February 1, 2016 with the same estimated remaining clean-up liability of \$15,720,000 that was noted in the draft RI/FS.

Eldridge Avenue Municipal Landfill – Remediation is required to cleanup contamination from the use of this site as a landfill for garbage. An RI/FS was published in September 2015 estimating the remaining clean-up, monitoring and testing costs as \$237,000 over the next 30 years. The bulk of these costs will be incurred in the next five years and as of December 31, 2015, the remaining estimated cost was \$205 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, \$1.63 million has been exhausted leaving a residual prepaid asset of \$628 thousand. Updating the liability based on Anchor QEA's most recent cost forecasts and estimates the City's estimated remediation liability at year end is \$5.76 million. The net of the prepaid pollution remediation asset and the pollution remediation obligation related to the Central Waterfront site is \$5.14 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. One-third of this tax remains with the county/cities for law enforcement and two-thirds of this tax is remitted to the County to be used for countywide emergency medical services. The City of Bellingham has a contract with the County to provide ambulance service in certain areas of the county.

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 of this center is the responsibility of the Bellingham Police Chief. City fire department personnel operate “Prospect Communications Center” and administration of this center 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 establishes the annual financial contributions to be made by the member jurisdictions. In 2015, the City contributed \$1,183,345 to the Public Safety Dispatch fund as its share of operations, approximately 23% of total revenues.

Waterfront redevelopment

The Bellingham City Council and the Port of Bellingham's Board of Commissioners approved a package of Waterfront District Master Plan documents and related development agreements in December 2013. These documents include the Waterfront District Sub-Area Plan, Design Standards, Development Regulations, Development Agreement, Planned Action Ordinance, and the Interlocal Agreement for Facilities. The Port and City acknowledge that redeveloping the Waterfront District in conformance with the Master Plan will require facilities. The Port's and City's obligations for providing such facilities and the phasing of such facilities are based on a set of triggers that are set forth in the Interlocal Agreement for Facilities. The Port and the City have agreed to jointly prioritize and pursue outside funding assistance from federal, state, and other sources.

Lake Whatcom Management Program (LWMP) and Aquatic Invasive Species (AIS)

The City of Bellingham, Whatcom County, and the Lake Whatcom Water and Sewer District (LWWSD) came together in 1998 to formalize, by interlocal agreement, the Lake Whatcom Management Program. The goal of the program is to improve lake water quality by jointly implementing programs affecting the Lake Whatcom Watershed. In 2010 the LWMP 2010-2014 work plan was adopted which included several capital projects all three entities committed to completing. In this timeframe the Aquatic Invasive Species (AIS) Prevention Program was also launched as a joint program funded by LWWSD, Whatcom County, the City, and program fees. The City contributed \$97,062 towards the AIS program in 2015, LWWSD contributed \$46,027, and the County contributed \$87,451. Additionally, in 2014 the City completed the stormwater retrofit project at Bloedel Donovan which was under the management of the

LWMP. The City, County, and LWWSD have all agreed through the interlocal agreement to commit funds towards land preservation, stormwater management, land use, education and engagement, monitoring and data, hazardous materials mitigation, recreation, AIS, utilities and transportation, and administration. The 2015-2019 work plan cost estimates for the LWMP include contributions totaling \$45.7 million between the City, County, and LWWSD over the next five years.

Lake Whatcom Water and Sewer District

The Lake Whatcom Water and Sewer District (LWWSD) is a distinct municipal entity with its own assets, liabilities, and governing board. The LWWSD is not a component unit of the City.

The Lake Whatcom Water and Sewer District (LWWSD) entered into Interlocal Agreement 2014-0136 which is effective from January 1, 2014, through December 31, 2034. RCW 39.34 allows governmental entities to enter into Interlocal Agreements to perform services for one another on the basis of mutual advantage and the Bellingham Municipal Code 15.36 authorizes the City to provide sewer services outside its corporate limits subject to certain conditions. Interlocal agreement 2014-0136 established the terms and conditions upon which the City will accept, convey, treat, and dispose of the District's sewage for a fee. The District agreed to pay its proportionate share of the City's sewer system costs, including operation and maintenance (O&M) and capital improvements. The District's proportionate share of the City's sewer system costs consist of volumetric charges of their use of the City's sewerage system and capital contribution charges as specified in section 6 of the agreement. In 2015 the LWWSD paid the City \$193,639 in capital contribution charges.

Fire District #8

Whatcom County Fire Protection District No. 8 is a distinct municipal entity and is not a component unit of the City.

Whatcom County Fire Protection District No. 8 and the City of Bellingham entered into Interlocal agreement 2013-0030 for the provision of administrative services. District 8 and the City agreed that a long-term agreement between the two entities for fire and emergency medical services is beneficial to both agencies and their stakeholders and accordingly the City agreed to provide the following services to District 8 for a fee: (a) Fire Chief level oversight, (b) operational management for District 8, and (c) financial management. This agreement is effective from February 1, 2013, and shall continue in effect until December 31, 2017, unless terminated earlier by the provisions in the agreement. In 2015, the City billed the District \$203,639 for providing these services.

Whatcom County Rural Library District

Whatcom County Rural Library District is a distinct municipal entity with its own assets, liabilities, and governing board. Whatcom Rural Library District is not a component unit of the City.

Per Interlocal agreement 2013-0614 the City Library and the County Library provide unrestricted access to library services and circulation materials for all residents of the service areas of both libraries. However, since County residents use the City Library to a greater degree than the County Library is used by City residents, the County Library agreed to reimburse the City Library \$154,539 in 2015.

V-E Related-party transactions***Port of Bellingham Pollution Remediation Costs***

The Port of Bellingham is a distinct municipal entity with its own assets, liabilities, and governing board. The Port of Bellingham is not a component unit of the City.

Although distinct entities, the Port and the City are both listed as potentially liable parties (PLP's) by the Department of Ecology in regards to the pollution remediation requirements for the Cornwall Ave Landfill Site and the Central Waterfront site. As two named governmental entities the City and the Port are working jointly with Ecology to address the remediation concerns. In 2005 the City prepaid the Port \$1.44 million and \$2.26 million towards the clean-up of Cornwall Ave and the Central Waterfront, respectively, and as of December 31, 2015, the City has \$473,718 and \$628,145 of these two prepayments remaining, respectively.

Park Districts Loan

The Chuckanut Community Forest Park District (Park District) is a distinct municipal entity with its own assets, liabilities, and board of commissioners. The Park District was created on February 12, 2013, when voters in a southern portion of the City approved a ballot measure to create the Chuckanut Community Forest Park District. The Park District taxes property owners within its boundaries to repay the loan from the Greenways Endowment fund in exchange for a conservation easement ensuring the entirety of the property purchased with the original loan is protected in perpetuity in public ownership. The property will be protected with the conservation easement with respect for its ecological, recreational and educational functions. The Park District is not a component unit of the City.

The specific terms and conditions of the loan repayment are included in Interlocal agreement #2013-0624 which was signed at the end of 2013. In this agreement the Park District agreed to begin making payments to the City to pay off the loan of \$3,232,022, accrued interest on the loan through June 30, 2014, of \$100,335, and future interest on the loan after June 30, 2014. 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 Park District made a principal payment of \$13,255 in 2014 and \$246,986 in 2015. As of December 31, 2015, the loan balance is \$2,971,781.

As of the date of the financial statements there is an unresolved lawsuit which questions the legality of the formation of the Park District, which correspondingly, calls into the question whether or not this loan agreement and conservation easement will be valid.

V-F Pension plans**Aggregate pension amounts for all plans as of 12/31/2015**

Pension liabilities	\$27,177,515
Pension assets	15,135,879
Deferred outflows of resources	4,654,447
Deferred inflows of resources	7,468,731
Pension expense/expenditures	710,265

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions. The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

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

The City's actual contributions to the plan were \$1,423,648 for the year ended December 31, 2015.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The City's actual contributions to the plan were \$1,735,258 for the year ended December 31, 2015.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions to the plan were \$1,217,038 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

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

Plan	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	\$ 18,075,307	\$ 14,846,216	\$ 12,069,494
PERS 2/3	36,057,357	12,331,299	(5,834,854)
LEOFF 1	(2,000,867)	(3,127,561)	(4,087,857)
LEOFF 2	8,407,756	(8,395,708)	(21,040,952)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the City reported a total of \$15,654,247 for its proportionate share of the net pension liabilities as follows:

Plan	Liability (Asset)
PERS 1	\$ 14,846,216
PERS 2/3	12,331,299
TOTAL LIABILITY	27,177,515
LEOFF 1	(3,127,561)
LEOFF 2	(8,395,708)
TOTAL ASSET	\$ (11,523,269)

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

Plan	Liability (Asset)
LEOFF 2 – employer’s proportionate share	\$ (8,395,708)
LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer	(5,551,245)
TOTAL	\$ (13,946,953)

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

Plan	% of Proportionate Share 6/30/14	% of Proportionate Share 6/30/15	Change in Proportion %
PERS 1	0.292219%	0.283816%	-0.008403%
PERS 2/3	0.347973%	0.345119%	-0.002854%
LEOFF 1	0.254508%	0.259501%	0.004993%
LEOFF 2	0.853588%	0.816862%	-0.036726%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the City's recognized pension expense is as follows:

Plan	Pension Expense
PERS 1	\$ 390,852
PERS 2/3	1,431,035
LEOFF 1	(656,604)
LEOFF 2	522,135
TOTAL	\$ 1,687,419

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$812,250
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	\$789,514	-
TOTAL	\$789,514	\$812,250

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$1,310,821	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$3,291,873
Changes of assumptions	19,869	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	91,832
Contributions subsequent to the measurement date	966,832	-
TOTAL	\$2,297,522	\$3,383,705

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$527,994
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
TOTAL	\$0	\$527,994

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$735,184	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$2,543,855
Changes of assumptions	22,145	-
Changes in proportion and differences between contributions and proportionate share of contributions	192,486	-
Contributions subsequent to the measurement date	617,594	-
TOTAL	\$1,567,409	\$2,543,855

TOTAL	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$2,046,005	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$7,175,972
Changes of assumptions	42,014	-
Changes in proportion and differences between contributions and proportionate share of contributions	(2,543,855)	(791,644)
Contributions subsequent to the measurement date	2,373,940	-
TOTAL	\$1,918,104	\$6,384,328

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2	TOTAL
2016	\$ (314,800)	\$ (842,124)	\$ (204,881)	\$ (850,838)	\$ (2,212,644)
2017	(314,800)	(842,124)	(204,881)	(850,838)	(2,212,644)
2018	(314,800)	(842,128)	(204,881)	(850,838)	(2,212,647)
2019	132,150	740,748	86,650	583,041	1,542,589
2020	-	-	-	143,601	143,601
Thereafter	-	-	-	28,720	28,720

City of Bellingham Firefighters' (FFP) and Police Officers' Pension (POP) Plans

Plan description

The City administers two closed single-employer defined benefit pension plans for retired and disabled firefighters' and police officers'. The FFP and POP provide retirement, disability, and death benefits to plan members and their beneficiaries. The plans are governed by the firefighters' and police officers' pension boards which are responsible for the management of the plan assets. Both systems were established and are administered in accordance with state laws RCW 41.18 and 41.20. Financial reporting for both of these plans are contained in the basic and individual fund statements of this report.

Board membership

The FFP is administered by a fire pension board comprised of the city council finance committee chairperson, the mayor, the finance director, a non-voting physician, two regularly employed or retired firefighters elected by secret ballot of the employed and retired firefighters, and an alternate firefighter.

The POP is administered by a police pension board comprised of the president of the city council, the mayor, the finance director, a non-voting physician, and three active or retired members of the police department elected by active and retired members of the police department.

Summary of significant accounting and funding policies

Employer contributions, determined during the biennial budget process using actuarially determined amounts, are recognized as revenues in the period in which they are budgeted and paid. Non-employer State collected and distributed fire insurance premium taxes, of \$127,180 in 2015, are recognized in the FFP when received. The plans are both closed to new participants and are no longer receiving employee contributions. Benefits and refunds are recorded when due and payable in accordance with the terms of each plan.

Plan benefits

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 employee pay rates including cost of living adjustments. Benefits are calculated at 2% per year of service and on the average final compensation 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.

FFP 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.

POP 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.

Membership participation		
	FFP	POP
	12/31/15	12/31/15
Active employees	1	1
Retirees	27	16
Beneficiaries	19	7
Total Participants	47	24
Receiving Benefits	39	16

Investments

The FFP and POP Boards have designated daily operations, internal controls, and investment decisions to the City's finance director. The finance director follows the City's investment policy using an investment strategy that emphasizes prudent and professional standards. The primary investment requirements, in order of priority, are: safety, compliance, liquidity, and return on investment. Details of plan investments are included in Note IV-A *Deposits and Investments*. The City's *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. No significant investment policy changes were made during the reporting year. Fair value of investments is determined by the quoted market prices.

Investment concentration				
	FFP 12/31/2015	POP 12/31/2015	%	Moody's rating
Investments at fair value				
U.S. Treasury Obligations:				
U.S. Treasury Notes	\$341,040	\$243,775	7.41%	Aaa
Federal Home Loan Bank (FHLB)	648,222	463,348	14.08%	Aaa
Federal National Mortgage Association (FNMA)	1,866,820	1,334,400	40.53%	Aaa
Federal Home Loan Mortgage Corp. (FHLMC)	681,882	487,408	14.81%	Aaa
Federal Farm Credit Bank (FFCB)	654,665	467,954	14.22%	Aaa
Municipal Bonds	412,202	294,641	8.95%	Aa1
Total investments at fair value	\$4,604,831	\$3,291,526	100.00%	

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was .79% for FFP and .83% for POP. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

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, 2014. The actuarial assumptions involving investment earnings and salary growth for the FFP and the POP 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* officer, *Seattle-Everett, Washington*, 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 following significant assumptions are used in the most current study:

Pension actuarial methods and assumptions for FFP and POP

Valuation date	12/31/2014
Actuarial cost method	entry age
Actuarial asset method	market value
Assumed composite rate of return	3.5%
Projected salary increases	3.0%
Inflation rate	2.5%
Property tax contribution rate increases (FFP only)	2.5%
Fire insurance premium rate increases (FFP)	2.5%
Mortality rate - static projection to 2025	RP-2000, scale BB
Amortization period	closed, 30 years
Remaining amortization	14 years

Net pension asset and interest rate sensitivity

	FFP 12/31/15	POP 12/31/15
Total pension asset	\$ 5,476,236	\$ 1,282,730
Plan fiduciary net position	6,411,373	3,960,203
Net pension asset	<u>\$ 935,137</u>	<u>\$ 2,677,473</u>
Net position as a % of total asset	117.08%	308.73%
<i>Net pension asset sensitivity</i>		
Plus 1% composite rate of return	<u>\$ 1,345,812</u>	<u>\$ 2,779,189</u>
Minus 1% composite rate of retrun	<u>\$ 461,970</u>	<u>\$ 2,559,895</u>

Changes in the net pension asset

	FFP			POP		
	Total Pension Asset	Plan Fiduciary Net Position	Net Pension Asset	Total Pension Asset	Plan Fiduciary Net Position	Net Pension Asset
Balance at 1/1/2015	\$5,731,353	\$6,031,603	\$300,250	\$1,366,822	\$3,752,262	\$2,385,440
Changes for the year:						
Service cost	-		-	-		-
Interest	192,760		(192,760)	45,570		(45,570)
Differences, expected and actual	-		-	-		-
Changes of assumptions	-		-	-		-
Contributions - employer		656,841	656,841		310,025	310,025
Contributions - nonemployer		127,180	127,180		-	-
Net investment income		48,857	48,857		32,313	32,313
Administrative expense		(5,231)	(5,231)		(4,735)	(4,735)
Benefit payments, net of refunds	(447,877)	(447,877)	-	(129,662)	(129,662)	-
Net changes	(255,117)	379,770	634,887	(84,092)	207,941	292,033
Balance at 12/31/2015	\$5,476,236	\$6,411,373	\$935,137	\$1,282,730	\$3,960,203	\$2,677,473

* Service cost, differences, and changes are zero dollars for non valuation years. Next valuation is scheduled for 12/31/16.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

FFP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$123,529
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
TOTAL	\$0	\$123,529

POP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$77,398
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
TOTAL	\$0	\$77,398

TOTAL	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	\$200,927
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
TOTAL	\$0	\$200,927

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	FFP	POP	TOTAL
2016	(\$30,882)	(\$19,349)	(50,231)
2017	(30,882)	(19,349)	(50,231)
2018	(30,882)	(19,349)	(50,231)
2019	(30,883)	(19,351)	(50,234)
2020	-	-	-
Thereafter	-	-	-

V-G Other post-employment benefits (OPEB)

Firefighters' (FHC) and Police Officers' (PHC) Health Care Plans

Plan description. In accordance with the Revised Code of Washington (RCW) 41.26, the City administers two single-employer defined benefit healthcare plans for firefighters' and police officers' employed prior to October 1, 1977. The FHC and PHC plans provide lifetime medical, prescription drug, dental, Medicare Part B premiums, long-term care, and vision expenses for LEOFF Plan 1 retirees. Dependent spouses and children are not covered. Financial reporting for both of these plans are contained in the basic and individual fund statements of this report.

Funding policy. Funding for LEOFF 1 retiree healthcare costs is provided entirely by the City as required by the Revised Code of Washington (RCW) 41.26. There are no active employee nor retiree contributions. The medical care benefits are funded on a pay-as-you-go basis. The long-term care benefits are being pre-funded using an actuarial required contribution (ARC) as the basis. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess).

Annual OPEB cost and net OPEB obligations. The City's annual OPEB cost and net OPEB obligation for the year ended December 31, 2015, are as follows:

Annual OPEB cost and net OPEB obligation

	FHC	PHC
	12/13/15	12/13/15
Annual required contribution (ARC)	\$ 1,260,718	\$ 835,217
Interest on net OPEB obligation	18,389	14,977
Adjustment to the ARC	(34,538)	(25,147)
Annual OPEB cost	1,244,569	825,047
Contributions made	(1,549,134)	(1,061,590)
Decrease in net OPEB obligation	(304,565)	(236,543)
Net OPEB obligation, beginning of year	525,400	382,547
Net OPEB obligation, end of year	<u>\$ 220,835</u>	<u>\$ 146,004</u>

Trend information is intended to provide an indication of the progress being made in accumulating sufficient assets to pay benefits when due.

Three year OPEB trend information

Plan	Year	Annual OPEB cost (AOC)	Contributions	Percentage of AOC contributed	Net OPEB obligation
FHC	2013	\$ 1,533,146	\$ 1,473,609	96.1%	\$ 459,020
	2014	1,526,985	1,460,605	95.7%	525,400
	2015	1,244,569	1,549,134	124.5%	220,835
PHC	2013	\$ 1,005,411	924,373	91.9%	\$ 353,447
	2014	1,000,221	971,121	97.1%	382,547
	2015	825,047	1,061,590	128.7%	146,004

Funding status and funding progress. Actuarial valuations involve estimates and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The 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. As of the last valuation date, December 31, 2014, the FHC and PHC plans are 13.4% and 16.4% funded, respectively.

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, 2014.

Schedule of OPEB funded status

	FHC 12/31/14	PHC 12/31/14
Actuarial accrued liability (AAL)	\$ 21,396,000	\$ 14,684,000
Actuarial value of plan assets	<u>2,866,000</u>	<u>2,408,000</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 18,530,000</u>	<u>\$ 12,276,000</u>
Funded ratio (actuarial value of plan assets/AAL)	13.4%	16.4%
Covered payroll (annual payroll of active employees covered by the plan)	357,440	162,093
UAAL as a % of covered payroll	5184%	7573%

Actuarial methods and assumptions. Projections of benefits for financial reporting purposes are made using actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial calculations of the plans reflect a long-term perspective.

OPEB actuarial methods and assumptions

Actuarial cost method	entry age
Asset valuation method	market value
Assumed composite blended rate of return	3.5%
Inflation rate	2.5%
Medical care cost inflation rate	7% grading down to 5% over 4 yrs.
Long-term care cost inflation rate	4.5%
Mortality rate - static projection	RP-2000, scale BB
Amortization period	closed, 30 years
Remaining amortization	21 years

V-H 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 other 10% of the property tax levy receipts and interest earnings were allocated into the beyond greenways endowment fund. The money allocated to this fund was not yet needed for operational purposes. Additionally, any principal donations that are intended to be kept in a nonexpendable trust are also put in the beyond greenways endowment fund.

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 \$0.057 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, trails, and open space property acquisition, development, and maintenance. The City created the greenways III fund with ordinance 2007-01-004 to account for the property tax levy receipts. These receipts are to be used for acquisition and development/improvement of property.

Ordinance 2007-04-034 changed the name of the beyond greenways endowment fund to greenways maintenance endowment fund and expanded the scope of the fund to include maintenance activities for properties acquired or developed with any greenway levy funds. This ordinance also set aside 9% of the greenways III levy to the endowment fund.

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, 2015, a total of \$5,493,936 in property taxes and donations has been receipted into the endowment fund and is nonspendable. Interest in the amount of \$14,090 remains unspent.

Natural resources 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 payment received) cannot be expended for 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, 2015, \$512,250 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 24.44.020. Investments for the endowment funds meet the same criteria as other City funds. The City's investment risk is described in note IV-A.

V-I Subsequent Events

In April 2016 the City of Bellingham issued \$8,815,000 of LTGO Refunding Bonds, 2016 Series A, and \$825,000 of LTGO Refunding Bonds, 2016 Series B (Taxable) bonds. These bonds were issued for the purpose of providing funds (i) to advance refund and defease the outstanding limited sales tax obligation bonds of the Bellingham-Whatcom Public Facilities District (the "PFD") and (ii) to pay costs of issuance for the Bonds. The PFD entered into Interlocal Financing Agreement ("ILA") 2016-0268 with the City pledging to impose the sales and use tax as set forth therein and to distribute to the City all PFD Revenues for payment of the principal of and interest on the Bonds and other obligations of the PFD as described in the ILA. The net present value savings related to the refunding was \$1,185,952 given the more favorable interest rates secured by refunding the debt as LTGO bonds of the City.

With the issuance of the 2016 LTGO Refunding bonds as debt of the City and the passage of ILA 2016-0268 the contingent liability established in contract 2007-0552 between the City and the PFD was superseded. Under the new ILA 2016-0268 the PFD is responsible for making debt payments to the City related to the 2016 LTGO bonds, their share of the 2004 LTGO bonds which were refunded as the 2012 LTGO bonds, and payment of the interlocal loan, but the debt structure and payment dates have been modified with the refunding.



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, 2015

	2015-2016 Biennial		2015	Variance with
	Budgeted Amounts		Actual	
	Original	Final	Legal Basis	Final Budget
REVENUES				
Taxes:				
Property	\$ 27,953,916	\$ 27,953,916	\$ 14,179,751	\$ (13,774,165)
Sales and use	28,258,700	28,643,200	14,543,599	(14,099,601)
Business	59,800,620	59,800,620	29,884,433	(29,916,187)
Other	1,960,000	1,960,000	1,023,206	(936,794)
Licenses and permits	1,637,142	1,729,142	852,970	(876,172)
Intergovernmental revenue	1,795,150	2,147,488	1,628,319	(519,169)
Charges for services	16,060,174	16,467,660	9,080,655	(7,387,005)
Fines and penalties	2,552,589	2,172,113	985,824	(1,186,289)
Miscellaneous revenue	1,398,016	1,433,016	981,874	(451,142)
Total revenues	141,416,307	142,307,155	73,160,631	(69,146,524)
EXPENDITURES				
Current:				
General government services	27,845,435	28,260,936	13,108,669	15,152,267
Public safety	74,842,838	75,802,173	36,829,426	38,972,747
Natural and economic environment	7,068,526	7,280,110	3,220,328	4,059,782
Social Services	340,685	368,083	154,472	213,611
Cultural and recreation	26,927,509	27,126,409	12,808,400	14,318,009
Debt service:				
Principal	428,527	428,527	-	428,527
Interest and other charges	14,789	14,789	8,293	6,496
Capital outlay	68,318	1,454,873	1,463,685	(8,812)
Total expenditures	137,536,627	140,735,900	67,593,273	73,142,627
Excess (deficiency) of revenues over (under) expenditures	3,879,680	1,571,255	5,567,358	3,996,103
OTHER FINANCING SOURCES (USES)				
Transfers in	300,000	300,000	150,000	(150,000)
Transfers out	(5,300,888)	(5,300,888)	(2,682,604)	2,618,284
Total other financing sources and (uses)	(5,000,888)	(5,000,888)	(2,532,604)	2,468,284
Net change in fund balances	(1,121,208)	(3,429,633)	3,034,754	6,464,387
Fund balances - beginning	14,153,483	17,725,097	17,523,800	(201,297)
Fund balances - ending	\$ 13,032,275	\$ 14,295,464	\$ 20,558,554	\$ 6,263,090

CITY OF BELLINGHAM
Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balances
Original General Fund compared to Combined GASB 54 General Fund GAAP Basis
For the Year Ended December 31, 2015

REVENUES

General fund	\$73,160,631
<i>Budgeted separately and consolidated for GASB 54 reporting -</i>	
Streets	17,725,656
Paths and Trails Reserve	21,361
Park Site Acquisition	1,310
Federal Building	17,581
Olympic - Whatcom Falls Park Addition	2,054
First 1/4% Real Estate Excise Tax	1,891,697
Second 1/4% Real Estate Excise Tax	2,010,765
Beyond Greenway Levy	2,217
Greenway III Levy	4,787,918
Park Impact Fees	3,168,976
Sportsplex	1,172
Combined General Fund	<u>102,791,338</u>

EXPENDITURES

General Fund	67,593,273
<i>Budgeted separately and consolidated for GASB 54 reporting -</i>	
Streets	23,019,439
Paths and Trails Reserve	588
Park Site Acquisition	144,100
Federal Building	2,195,197
Olympic - Whatcom Falls Park Addition	10,278
First 1/4% Real Estate Excise Tax	542,795
Second 1/4% Real Estate Excise Tax	270,230
Beyond Greenway Levy	124,624
Greenway III Levy	6,538,888
Park Impact Fees	1,877,852
Combined General Fund	<u>102,317,264</u>

OTHER FINANCING SOURCES (USES)

General Fund	(2,532,604)
<i>Budgeted separately and consolidated for GASB 54 reporting -</i>	<u>2,958,015</u>
Combined General Fund	<u>425,411</u>

NET CHANGES IN FUND BALANCES

General Fund	3,034,754
<i>Budgeted separately and consolidated for GASB 54 reporting -</i>	<u>(2,135,269)</u>
Combined General Fund	<u>\$ 899,485</u>

**Note: The eleven funds delineated above do not meet the definition of a special revenue fund as defined in GASB 54 ¶30-31 and by the WA State Auditors office BARS manual GAAP section 3.1.1.40 code 100. Accordingly, they were combined with the general fund for GAAP basis reporting. However, the budgets for these eleven funds and the originally budgeted general fund were legally appropriated and as such are presented as part of the combining and individual fund statements.*

Pension Plans*Washington State Department of Retirement Systems - PERS and LEOFF***Schedule of proportionate share of net pension liability - PERS & LEOFF**

	6/30/2015	6/30/2014
PERS 1		
City proportion of NPL	0.283816%	0.292219%
City proportionate share of NPL	\$ 14,846,216	\$ 14,720,669
Covered employee payroll	\$ 846,528	\$ 1,086,076
Employer's proportionate share of the NPL as a % of covered employee payroll	1753.78%	1355.40%
Plan Fiduciary net position (FNP)	\$ (21,451,699)	\$ (23,206,738)
Total pension liability	\$ 36,297,915	\$ 37,927,408
FNP as a % of the total pension liability	-59.10%	-61.19%
PERS 2/3		
City proportion of NPL	0.345119%	0.347973%
City proportionate share of NPL	\$ 12,331,299	\$ 7,033,791
Covered employee payroll	\$ 30,624,515	\$ 29,807,323
Employer's proportionate share of the NPL as a % of covered employee payroll	40.27%	23.60%
Plan Fiduciary net position (FNP)	\$ (101,851,378)	\$ (97,776,269)
Total pension liability	\$ 114,182,676	\$ 104,810,059
FNP as a % of the total pension liability	-89.20%	-93.29%
LEOFF 1		
City proportion of NPA	0.259501%	0.254508%
City proportionate share of NPA	\$ (3,127,561)	\$ (3,086,650)
Covered employee payroll	\$ 149,426	\$ 473,423
Employer's proportionate share of the NPA as a % of covered employee payroll	2093.05%	651.99%
Plan Fiduciary net position (FNP)	\$ (14,558,393)	\$ (14,554,819)
Total pension liability	\$ 11,430,832	\$ 11,468,169
FNP as a % of the total pension liability	-127.36%	-126.91%
LEOFF 2		
City proportion of NPA	0.816862%	0.853588%
City proportionate share of City NPA	\$ (8,395,708)	\$ (11,327,480)
State proportionate share of City NPA	\$ (5,551,241)	\$ (7,401,154)
Total proportionate share	\$ (13,946,949)	\$ (18,728,634)
Covered employee payroll	\$ 23,708,488	\$ 23,754,316
Employer's proportionate share of the NPA as a % of covered employee payroll	-35.41%	-47.69%
Plan Fiduciary net position (FNP)	\$ (80,319,337)	\$ (78,963,736)
Total pension liability	\$ 71,923,629	\$ 67,636,256
FNP as a % of the total pension liability	-111.67%	-116.75%

* Information is available beginning in 2014.

Pension Plans*Washington State Department of Retirement Systems - PERS and LEOFF (continued)***Schedule of contributions - PERS & LEOFF**

Plan	Year	Statutorially required contributions	Actual contributions	Contribution deficiency (excess)	Covered Employee Payroll	Contributions as a % of covered employee payroll
PERS 1	6/30/2014	1,293,452	1,293,452	-	1,086,076	119.09%
	6/30/2015	1,304,409	1,304,409	-	846,528	154.09%
PERS 2/3	6/30/2014	1,469,976	1,469,976	-	29,807,323	4.93%
	6/30/2015	1,537,344	1,537,344	-	30,624,515	5.02%
LEOFF 1	6/30/2014	-	-	-	473,423	0.00%
	6/30/2015	-	-	-	149,426	0.00%
LEOFF 2	6/30/2014	1,199,893	1,199,893	-	23,754,316	5.05%
	6/30/2015	1,197,282	1,197,282	-	23,708,488	5.05%

** Information is available beginning in 2014.*

Pension Plans*Firefighters' (FFP) and Police Officers' (POP) Pension Plans***Schedule of changes in net pension asset - FFP & POP**

	2015	2014	2013
Firefighters' Pension Plan			
Total pension asset			
Service cost	\$ -	\$ -	\$ -
Interest	192,760	260,497	273,717
Changes in actuarial assumptions	-	140,083	-
Differences, expected and actual	-	(189,608)	-
Benefit payments, net	(447,877)	(536,869)	(598,129)
Net change in total pension asset	(255,117)	(325,897)	(324,412)
Total pension asset - beginning	5,731,353	6,057,250	6,381,662
Total pension asset - ending	\$5,476,236	\$5,731,353	\$6,057,250
Plan fiduciary net position			
Contributions - employer	656,841	666,889	618,805
Contributions - nonemployer	127,180	140,638	129,799
Net investment income	48,857	64,034	(2,583)
Benefit payments, net	(447,877)	(536,869)	(598,129)
Administrative expense	(5,231)	(2,420)	(3,493)
Net change in plan fiduciary net position	379,770	332,272	144,399
Plan fiduciary net position - beginning	6,031,603	5,699,331	5,554,932
Plan fiduciary net position - ending	6,411,373	6,031,603	5,699,331
Net pension asset (liability)	935,137	300,250	(357,919)
Plan fiduciary net position as a % of total pension asset	117.08%	105.24%	94.09%
Covered-employee payroll	142,115	357,440	432,351
Net pension asset as a % of covered employee payroll	658.01%	84.00%	-82.78%
Police Officers' Pension Plan			
Total pension asset			
Service cost	\$ -	\$ -	\$ -
Interest	45,570	63,919	67,258
Changes in actuarial assumptions	-	(27,978)	-
Differences, expected and actual	-	(28,536)	-
Benefit payments, net	(129,662)	(122,007)	(160,904)
Net change in total pension asset	(84,092)	(114,602)	(93,646)
Total pension asset - beginning	1,366,822	1,481,424	1,575,070
Total pension asset - ending	\$1,282,730	\$1,366,822	\$1,481,424
Plan fiduciary net position			
Contributions - employer	310,025	338,015	263,344
Net investment income	32,313	41,593	(11,006)
Benefit payments, net	(129,662)	(122,007)	(160,904)
Administrative expense	(4,735)	(2,969)	(1,557)
Net change in plan fiduciary net position	207,941	254,632	89,877
Plan fiduciary net position - beginning	3,752,262	3,497,630	3,407,753
Plan fiduciary net position - ending	3,960,203	3,752,262	3,497,630
Net pension asset	2,677,473	2,385,440	2,016,206
Plan fiduciary net position as a % of total pension asset	308.73%	274.52%	236.10%
Covered-employee payroll	147,835	162,093	245,929
Net pension asset as a % of covered employee payroll	1811.12%	1471.65%	819.83%

* Information is available beginning in 2013.

Pension Plans*Firefighters' (FFP) and Police Officers' (POP) Pension Plans (continued)*

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, 2014. The next scheduled valuation date is December 31, 2016.

Schedule of contributions - FFP & POP

Plan	Year	Actuarially determined contributions	Actual contributions	Contribution deficiency (excess)	Covered Employee Payroll	Contributions as a % of covered employee payroll
FFP	2006	\$ 395,775	\$ 744,634	\$ (348,859)	\$ 1,644,771	45.27%
	2007	372,881	891,820	(518,939)	1,350,442	66.04%
	2008	372,881	1,158,121	(785,240)	1,171,301	98.87%
	2009	219,490	1,028,402	(808,912)	881,915	116.61%
	2010	219,490	628,673	(409,183)	761,841	82.52%
	2011	100,391	496,590	(396,199)	673,935	73.69%
	2012	100,391	633,363	(532,972)	479,131	132.19%
	2013	73,616	748,604	(674,988)	432,351	173.15%
	2014	73,616	807,527	(733,911)	357,440	225.92%
	2015	-	784,021	(784,021)	142,115	551.68%
POP	2006	\$ 100,937	\$ 1,416,813	\$ (1,315,876)	\$ 1,112,039	127.41%
	2007	-	447,709	(447,709)	915,651	48.90%
	2008	-	64,815	(64,815)	650,656	9.96%
	2009	-	17,559	(17,559)	610,356	2.88%
	2010	-	150,745	(150,745)	396,480	38.02%
	2011	-	73,432	(73,432)	285,674	25.70%
	2012	-	399,991	(399,991)	232,874	171.76%
	2013	-	263,344	(263,344)	245,929	107.08%
	2014	-	338,015	(338,015)	162,093	208.53%
	2015	-	310,025	(310,025)	147,835	209.71%

Actuarial methods and assumptions - FFP & POP

Valuation date	12/31/2014
Actuarial cost method	entry age
Actuarial asset method	market value
Assumed composite rate of return	3.5%
Projected salary increases	3.0%
Cost of living adjustments	2.5%
Inflation rate	2.5%
Mortality rate - static projection to 2025	RP-2000, scale BB
Amortization period	closed, 30 years
Remaining amortization	14 years

Pension Plans*Firefighters' (FFP) and Police Officers' (POP) Pension Plans (continued)***Schedule of investment returns - FFP & POP**

Plan	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
FFP	0.79%	1.09%	-0.05%	1.09%	1.58%	2.19%	2.95%	4.95%	*	*
POP	0.83%	1.15%	-0.32%	1.01%	1.04%	1.30%	1.64%	5.86%	*	*

** Information is available beginning in 2008.*

OPEB*Firefighters' (FHC) and Police Officers' (PHC) Health Care Plans*

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

Schedule of OPEB funding progress

Plan	Valuation date	Actuarial value of plan assets	Actuarial accrued liabilities	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
FHC	12/31/2010	\$ 1,713,000	\$ 23,929,000	\$ 22,216,000	7.2%	\$ 761,841	2916.1%
	12/31/2012	2,365,000	24,127,000	21,762,000	9.8%	479,131	4542.0%
	12/31/2014	2,866,000	21,396,000	18,530,000	13.4%	357,440	5184.1%
PHC	12/31/2010	\$ 2,043,000	\$ 16,798,000	\$ 14,755,000	12.2%	\$ 396,480	3721.5%
	12/31/2012	2,172,000	16,445,000	14,273,000	13.2%	232,874	6129.1%
	12/31/2014	2,408,000	14,684,000	12,276,000	16.4%	162,093	7573.4%

* Next valuation scheduled for 12/31/2016.

Schedule of employer OPEB contributions

Plan	Year	Annual required contribution	Employer contributions	Percentage contributed
FHC	2010	\$ 1,400,119	\$ 1,577,876	112.7%
	2011	1,656,188	1,740,949	105.1%
	2012	1,656,188	1,590,108	96.0%
	2013	1,538,195	1,473,609	95.8%
	2014	1,538,195	1,460,605	95.0%
	2015	1,260,718	1,549,134	122.9%
PHC	2010	\$ 915,952	\$ 692,509	75.6%
	2011	1,099,976	822,505	74.8%
	2012	1,099,976	1,085,080	98.6%
	2013	1,008,853	924,273	91.6%
	2014	1,008,853	971,121	96.3%
	2015	835,217	1,061,590	127.1%

City of Bellingham
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	826,213	-	3
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	47,265	47,265	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	39,838	39,838	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	25,000	25,000	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	30,249	30,249	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	7,187	7,187	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	5,364	5,364	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0010	-	10,660	10,660	
Total CFDA 14.218:				-	991,776	165,563	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M15-MC-53-0204	-	656,593	-	3
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M15-MC-53-0204	-	170,859	170,859	
Total CFDA 14.239:				-	827,452	170,859	
National Park Service, Department Of The Interior (via WS Archaeology & Historic Preservation)	Historic Preservation Fund Grants-In-Aid	15.904	FY14-61014-007	2,500	-	-	
National Park Service, Department Of The Interior (via WS Archaeology & Historic Preservation)	Historic Preservation Fund Grants-In-Aid	15.904	FY15-61015-007	4,482	-	-	
Total CFDA 15.904:				6,982	-	6,982	

The accompanying notes are an integral part of this schedule.

National Park Service, Department Of The Interior	Consolidated Appropriat Act, 2004 (H.R.2673)	15,999	Consolidated Appropriat Act, 2004 (H.R.2673)	-	153,437	153,437	-
Violence Against Women Office, Department Of Justice (via WS Dept of Commerce)	Violence Against Women Formula Grants	16,588	2014-WF-AX-0053	22,528	-	22,528	-
Violence Against Women Office, Department Of Justice (via WS Dept of Commerce)	Violence Against Women Formula Grants	16,588	2014-WF-AX-0053	25,532	-	25,532	-
Total CFDA 16,588:				48,060	-	48,060	-
Violence Against Women Office, Department Of Justice	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16,590	2011-WF-AX-0025	-	73,147	73,147	-
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16,607	117506	-	10,483	10,483	-
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16,738	2013-DJ-BX-0711	-	3,785	3,785	-
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16,738	2014-DJ-BX-0288	-	15,201	15,201	-
Total CFDA 16,738:				-	18,986	18,986	-
Criminal Division, Department Of Justice	Equitable Sharing Program	16,922	Equity Sharing Program	-	157,965	157,965	-
Highway Planning and Construction Cluster							
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	BHM-9937(004)/LA 8216	1,313,068	-	1,313,068	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	BRM-5511(001)/LA705 2	484,996	-	484,996	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	HPP-0080(016)/LA 6713	12,412	-	12,412	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	HPP-5552(001)/LA 7505	41,157	-	41,157	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	HSIP-5501(004)/LA835 3	315,829	-	315,829	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	HSIP-5510(006)/LA779 7	2,012,499	-	2,012,499	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	SRTS-0080(018)/LA 8346	171,838	-	171,838	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	STPUS 5511(002)/LA7476	127,155	-	127,155	-
Federal Highway Administration (fhw), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20,205	STPUS-5550(002)/LA 7953	127,504	-	127,504	-

The accompanying notes are an integral part of this schedule.

Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	STPUS-5559(001)/LA 8229	19,103	-	19,103	-
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	STPUS-5564(001)/LA 8387	51,916	-	51,916	-
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	STPUS-5568(001)/LA 8502	151,085	-	151,085	-
Total Highway Planning and Construction Cluster:				4,828,562	-	4,828,562	-
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WTSC)	State and Community Highway Safety	20.600	Safety Equipment	6,641	-	6,641	-
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WTSC)	State and Community Highway Safety	20.600	Section 402, Targeted DUI	3,248	-	3,248	-
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WTSC)	State and Community Highway Safety	20.600	Target Zero, Impaired Driving	2,626	-	2,626	-
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WTSC)	State and Community Highway Safety	20.600	Target Zero, Law Enforcement Liaison	2,234	-	2,234	-
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WTSC)	State and Community Highway Safety	20.600	Target Zero, Seat Belts	1,578	-	1,578	-
Total CFDA 20.600:				16,327	-	16,327	-
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WTSC)	National Priority Safety Programs	20.616	Target Zero, Distracted Driving	1,380	-	1,380	-
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WTSC)	National Priority Safety Programs	20.616	Target Zero, M1*CP15-01	16,317	-	16,317	-
Total CFDA 20.616:				17,697	-	17,697	-
Total Highway Safety Cluster:				34,024	-	34,024	-
Region 10, Environmental Protection Agency (via Puget Sound Partnership)	Puget Sound Action Agenda Outreach, Education and Stewardship Support Program	66.122	PT-00.U17601	12,642	-	12,642	-
Region 10, Environmental Protection Agency (via WSDOE)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1300088	375,620	-	375,620	-
Clean Water State Revolving Fund Cluster							
Office Of Water, Environmental Protection Agency (via WSDOE)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L13S00017 Squal Creek Phase I Forgiv P'tn	97,128	-	97,128	5

Office Of Water, Environmental Protection Agency (via WSDOE)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1300017 Squal Creek Phase I Stnd Prin & Green Project Reserve	653,843	-	653,843	-	5
Office Of Water, Environmental Protection Agency (via WSDOE)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L14S00010 Squal Crk Phase II Forgiv Prin GPR	168,205	-	168,205	-	5
Office Of Water, Environmental Protection Agency (via WSDOE)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1400010 Squal Crk Phase II Loan (GPR)	569,742	-	569,742	-	5
Office Of Water, Environmental Protection Agency (via WSDOE)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1200033 Padden Crk Daylight Stnd Loan	1,362,359	-	1,362,359	-	5
Office Of Water, Environmental Protection Agency (via WSDOE)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1400025 Strmwtr Main Retrofit Columbia/Rsvlt Loan	90,256	-	90,256	-	5
Total Clean Water State Revolving Fund Cluster:				2,941,533	-	2,941,533	-	
Office Of Water, Environmental Protection Agency (via WSDOE)	Nonpoint Source Implementation Grants	66.460	G1400398 Squal Crk Phase II Sec 319 NPS Grnt	418,991	-	418,991	-	
Office Of Federal Student Aid, Department Of Education (via WCC)	Federal Work-Study Program	84.033	Work Study - Intern	2,864	-	2,864	-	
Office Of Federal Student Aid, Department Of Education (via WWU)	Federal Work-Study Program	84.033	Work Study - Intern	5,732	-	5,732	-	
Total CFDA 84.033:				8,596	-	8,596	-	
Department Of Homeland Security (via WS Military)	Emergency Management Performance Grants	97.042	EMW-2014-EP-00033-S01	19,780	-	19,780	-	
Department Of Homeland Security (via WS Military)	Emergency Management Performance Grants	97.042	EMW-2015-EP-00028-S01	23,251	-	23,251	-	
Total CFDA 97.042:				43,031	-	43,031	-	
Department Of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2014-FV-01894	-	4,987	4,987	-	
Department Of Homeland Security	Port Security Grant Program	97.056	EMW-2013-PJ-00165-S01	-	310,393	310,393	-	
Department Of Homeland Security (via WCSO)	Homeland Security Grant Program	97.067	EMW-2013-SS-00025-S01	8,579	-	8,579	-	
Department Of Homeland Security (via WSMD, SNOHOMISH CTY, WCSO)	Homeland Security Grant Program	97.067	EMW-2013-SS-00025-S01	9,685	-	9,685	-	
Department Of Homeland Security (via WCSO)	Homeland Security Grant Program	97.067	EMW-2014-SS-00016-S01	973	-	973	-	
Total CFDA 97.067:				19,237	-	19,237	-	
Total Federal Awards Expended:				8,737,278	2,548,626	11,285,904	336,422	

City of Bellingham
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

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 COSTS

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

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The City administers revolving loan programs, using Federal Housing and Urban Development Funding, with the Community Development Block Grant (CDBG) and the Home Investment Partnership Program Grant (HOME) 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 and program income was \$548,176 and the HOME Grant was \$217,193 and are included in the expenditures figures in the schedule. The amount of principal and interest received in loan payments for the year for CDBG loans was \$275,496 and for HOME loans was \$124,835.

NOTE 4 - 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 amount expended this year on Federal building repair and restoration was the remaining balance of the donation, \$153,437, of this amount \$319 came from interest earnings and is considered to be program income. The award is fully expended.

NOTE 5 - COMMINGLED STATE AND FEDERAL FUNDS

The Squalicum Creek Reroute project (phase I, II, and III), the Padden Creek Daylighting project (funded by CFDA 66.458 and WA state DOE Centennial grant funding), and the Columbia/Roosevelt Neighborhood Stormwater main retrofit project (funded by CFDA 66.458 and WA State DOE grant funding) include both state and federal funds passed through the Department of Ecology to the City of Bellingham. In January the Department of Ecology provides a letter breaking down the federal share of the payments compared to the state funded portion of the payments for the amounts disbursed in the prior fiscal year. However, there were several large fourth quarter drawdown submissions submitted to the WA State Department of Ecology which are based on 2015 grant expenditures that were not paid by the date the City received the letter. Accordingly, we have included the entire unreimbursed 2015 grant expenditures related to these projects on the SEFA as federal expenses.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

City of Bellingham Whatcom County January 1, 2015 through December 31, 2015

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Bellingham.

Finding ref number: 2015-001	Finding caption: The City's internal controls over financial statement preparation are inadequate to ensure accurate reporting.
Name, address, and telephone of auditee contact person: Finance Director Brian Henshaw, (360) 778-8036 or Accounting Manager Angela Martin, (360) 778-8031 210 Lottie Street Bellingham, WA 98225	
Corrective action the auditee plans to take in response to the finding: <i>The City acknowledges the misstatements noted in the finding and has updated and corrected the current year financial statements accordingly. The City has also implemented additional internal controls and procedures to better address the areas of concern. See the discussion below for the new internal controls and procedures implemented by the City.</i> <i>GASB 68 Implementation - Pensions:</i> <i>The misstatements related to pensions and the related expenses, assets, liabilities, and deferred outflows and inflows of resources have all been corrected after review and discussion with the audit team and additional research by the City. The City now has well documented procedures related to implementation of this new standard and is working towards rehiring vacant management and staff positions. With staff vacancies our existing resources were strained, however, given our additional knowledge base after the first year and with additional staff reviews and resources which can be allocated to the application of this standard in the future the City is confident that the concerns related to this standard will be remedied in the 2016 financial statements.</i> <i>Capital contributions:</i> <i>City finance staff requested all of the supporting documents that were used to develop the internally generated spreadsheet summarizing capital contributions after the clerical notation was discovered during the audit. Finance staff verified the accuracy of the rest of the capital</i>	

contributions recorded in the financial statements and fixed asset software against the source documents provided by the developers. Going forward additional internal controls have been incorporated into this process whereby a supervisor will review and sign off on the spreadsheet prepared in Public Works and finance staff will require supporting documentation for all numbers in the spreadsheet before they are recorded into the City's capital asset system.

GASB 49 Pollution Remediation:

It has been management's position in the past to wait to update the estimate of a pollution remediation liability until one of the specific benchmarks listed in GASB 49 paragraph 13 occurs such as the issuance of an RI/FS. Pollution remediation obligations are subject to a wide range of cost estimates depending on which alternative is selected and it has been management's position in the past to wait to record an additional liability until after the Department of Ecology and the public have weighed in on the preferred alternative--given the often material differences between approaches. The City has recorded a pollution remediation liability for each of the sites in which it is named as a potentially liable party (PLP) and the liability was based on the original estimate determined by the Port, City, and consultants for the Central Waterfront and Cornwall sites, updated for the issuance of an RI/FS, and reduced by the costs incurred each year. This approach was still considered reasonable and was within the allowable confines established in GASB 49.

However, the City also acknowledges that the issuance of the RI/FS for Central Waterfront has taken several years longer than originally anticipated, and accordingly, to avoid "delaying recognition beyond the point at which a reasonable estimate of the range of a component of a liability can be made" the City elected to use the revised cost-estimates and forecasts prepared by Anchor QEA for the Central Waterfront site and the revised cost estimates for the Cornwall Landfill site in 2015. These increases to the pollution remediation obligation balances to match the updated consultant's estimates as of December 31, 2015, were made after the auditors pointed out that there was a difference between the City's estimates of the pollution remediation obligation for these two sites compared to the pollution remediation obligation prepared by the Port of Bellingham. The Port of Bellingham is named as the other PLP on these two sites and the City develops its pollution remediation obligation from reports provided by the Port and Anchor QEA consulting. Although the City and the Port are not required to use the same benchmarks for recognizing the liability, given the substantial delay in the publishing of the RI/FS for the Central Waterfront site the City elected to use the Port's consultants estimate this year. The City will continue to update the pollution remediation obligations based on the benchmarks specifically called out in GASB 49 paragraph 13, but we will also update the obligations if a reasonable estimate, such as the estimate provided by the consultants preparing the RI/FS, becomes available sooner.

Construction in Progress Classification:

The City monitors the costs related to capital assets by conferring with the engineers, project managers, and accountants to determine at what stage an asset is substantially complete and

should be moved from a construction in progress to a completed asset on the City's financial statements. Attributes such as the project budget (which often span multiple years), the published capital improvement plan (which includes anticipated projects for the next six years), continuing expenses being recorded in the job cost reports related to the project, and reports from the engineers and project managers all contribute to the City's analysis of when to move an asset out of CIP into a completed asset record and start depreciating the asset. Historically the City has been fairly conservative in its determination of when to move an asset out of CIP and has waited until the majority of the attributes noted above indicated the project was complete and wouldn't be incurring additional costs. However, the GASB and the State Auditor's Office BARS manual indicates that the threshold for moving an asset from CIP to a completed asset is when the asset is "substantially complete". The City is developing a more robust and well documented policy to utilize in the future to determine when this substantially complete threshold has been met. We anticipate completion of this policy before the start of the next audit and have already begun steps to analyze our existing CIP against these attributes. The City is in the process of reclassifying fixed assets that are considered substantially complete into a completed, in use, and depreciable classification as opposed to construction in progress on the balance sheet when appropriate.

Anticipated date to complete the corrective action:

Corrective steps and additional internal controls and procedures have already been implemented to remedy the issues noted in the finding. The City has already undergone steps to address each of the concerns noted in the finding and anticipates that these issues will be resolved before the start of the next audit.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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