



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of North Bend

King County

For the period January 1, 2014 through December 31, 2015

Published December 5, 2016

Report No. 1018065





Washington State Auditor's Office

December 5, 2016

Mayor and City Council
City of North Bend
North Bend, Washington

Report on Financial Statements

Please find attached our report on the City of North Bend's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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**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 North Bend
King County
January 1, 2014 through December 31, 2015**

Mayor and City Council
City of North Bend
North Bend, 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 City of North Bend, King County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 22, 2016.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

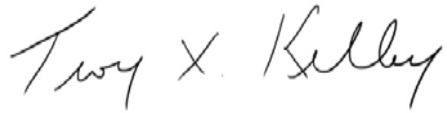
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

November 22, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of North Bend King County January 1, 2014 through December 31, 2015

Mayor and City Council
City of North Bend
North Bend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of North Bend, King County, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of North Bend has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of North Bend, for the years ended December 31, 2015 and 2014, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of North Bend, as of December 31, 2015 and 2014, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

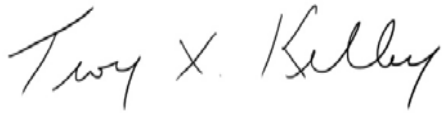
Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 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

November 22, 2016

FINANCIAL SECTION

**City of North Bend
King County
January 1, 2014 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fund Resources and Uses Arising from Cash Transactions – 2014
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2015
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Liabilities – 2014

City of North Bend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General Fund	102 Capital Streets
Beginning Cash and Investments				
30810	Reserved	6,787,872	-	129,123
30880	Unreserved	5,806,971	998,557	45,000
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	6,233,751	5,527,312	-
320	Licenses and Permits	345,914	277,596	-
330	Intergovernmental Revenues	505,421	191,076	42,098
340	Charges for Goods and Services	6,218,894	80,791	-
350	Fines and Penalties	73,611	73,611	-
360	Miscellaneous Revenues	2,284,338	35,697	2,450
Total Operating Revenues:		15,661,929	6,186,083	44,548
Operating Expenditures				
510	General Government	1,259,559	1,122,442	-
520	Public Safety	3,024,513	3,024,513	-
530	Utilities	3,220,700	-	-
540	Transportation	1,027,873	696,759	62,135
550	Natural and Economic Environment	997,595	560,131	-
560	Social Services	30,096	30,096	-
570	Culture and Recreation	459,366	457,834	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		10,019,701	5,891,774	62,135
Net Operating Increase (Decrease):		5,642,227	294,309	(17,587)
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	728,090	86,744	-
391-393	Debt Proceeds	12,584,483	-	-
397	Transfers-In	1,200,034	262,423	165,379
Total Nonoperating Revenues:		14,512,608	349,167	165,379
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	12,069,165	-	-
591-593	Debt Service	3,593,287	43,738	-
594-595	Capital Expenditures	1,951,144	160,060	-
597	Transfers-Out	1,200,034	193,984	308,370
Total Nonoperating Expenditures:		18,813,630	397,781	308,370
Net Increase (Decrease) in Cash and Investments:		1,341,204	245,693	(160,578)
Ending Cash and Investments				
5081000	Reserved	7,689,271	-	13,545
5088000	Unreserved	6,246,779	1,244,252	-
Total Ending Cash and Investments		13,936,050	1,244,252	13,545

The accompanying notes are an integral part of this statement.

103 Streets Overlay	106 Impact Fees & Mitigation	107 Hotel/Motel Tax	116 Park Capital Improvement	125 Development Projects (CED)	215 2010 LTGO Debt Service (Credit Line & To
61,608	921,945	4,420	64,823	123,499	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	12,365	-	-	-
-	-	-	-	-	-
11,826	-	-	46,351	-	-
-	268,503	-	-	729,976	-
-	-	-	-	-	-
-	2,757	-	-	-	-
11,826	271,260	12,365	46,351	729,976	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	9,000	-	428,464	-
-	-	-	-	-	-
-	-	-	1,532	-	-
-	-	-	-	-	-
-	-	9,000	1,532	428,464	-
11,826	271,260	3,365	44,819	301,512	-
-	-	-	-	-	-
-	-	-	-	-	1,903,032
68,934	-	-	-	-	158,356
68,934	-	-	-	-	2,061,388
-	-	-	-	-	1,903,032
-	-	-	-	-	158,356
26,605	-	-	27,805	-	-
-	147,211	-	14,437	262,423	-
26,605	147,211	-	42,242	262,423	2,061,388
54,155	124,049	3,365	2,577	39,090	(0)
115,763	1,045,993	7,785	67,400	162,588	-
-	-	-	-	-	-
115,763	1,045,993	7,785	67,400	162,588	-

The accompanying notes are an integral part of this statement.

216 2011 Fire Station Bond Redempt	217 2012 LTGO (TBD) Bond Redempt	218 2015 LTGO Bond Redemption Fund	310 Municipal Projects	320 Capital Improvement (REET)	401 Water Operations
175,277	12,096	-	629,675	585,931	89,618
-	-	-	359,622	-	1,378,803
-	-	-	-	-	-
187,534	-	-	-	506,541	-
-	-	-	-	-	-
-	-	-	137,518	-	-
-	147,775	-	-	-	1,826,988
-	-	-	-	-	-
557	126	4,095	2,798	1,996	5,523
188,090	147,901	4,095	140,316	508,537	1,832,512
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,143,549
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,143,549
188,090	147,901	4,095	140,316	508,537	688,963
-	-	-	-	-	94,036
-	-	-	-	-	602,291
-	-	32,608	512,334	-	-
-	-	32,608	512,334	-	696,327
-	-	-	-	-	87,590
183,500	148,200	36,703	-	43,738	249,051
-	-	-	534,800	-	208,373
-	-	-	35,879	237,730	-
183,500	148,200	36,703	570,679	281,468	545,014
4,590	(299)	0	81,971	227,069	840,276
179,868	11,797	-	581,987	813,000	530,001
-	-	-	489,280	-	1,778,697
179,868	11,797	-	1,071,267	813,000	2,308,697

The accompanying notes are an integral part of this statement.

402 Sewer Operations	404 Storm & FLOOD Operations	405 Solid Waste & Recycling Operations	451 ULID #6 Bond Redemption	452 ULID#6 Bond Reserve	501 Equipment Operations
219,445	129,854	-	1,858,369	1,782,191	-
1,379,462	1,132,559	131,935	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,703	66,615	-	-	-
-	42,429	34,123	-	-	-
1,834,053	828,335	-	-	-	449,649
-	-	-	-	-	-
4,118	3,485	446	2,215,667	4,029	595
1,838,171	875,953	101,183	2,215,667	4,029	450,244
-	-	-	-	-	137,117
-	-	-	-	-	-
1,396,718	641,949	38,484	-	-	-
-	-	-	-	-	268,979
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,396,718	641,949	38,484	-	-	406,096
441,453	234,004	62,699	2,215,667	4,029	44,148
504,379	36,350	-	-	-	6,581
135,130	914,270	-	9,029,760	-	-
-	-	-	-	-	-
639,509	950,620	-	9,029,760	-	6,581
135,130	913,652	-	9,029,760	-	-
436,062	215,161	-	1,501,574	533,465	43,738
930,421	44,316	-	-	-	6,991
-	-	-	-	-	-
1,501,613	1,173,130	-	10,531,335	533,465	50,729
(420,651)	11,495	62,699	714,093	(529,436)	(0)
219,445	114,885	-	2,572,461	1,252,755	-
958,812	1,159,022	194,634	-	-	-
1,178,257	1,273,907	194,634	2,572,461	1,252,755	-

The accompanying notes are an integral part of this statement.

**502 Equipment
Reserve**

-
381,032
-
-
-
-
52,824
-
-
52,824
-
-
-
-
-
-
-
52,824
-
-
-
-
-
11,773
-
11,773
41,051
-
422,083
422,083

The accompanying notes are an integral part of this statement.

City of North Bend
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General Fund	103 Streets Overlay
Beginning Cash and Investments				
30810	Reserved	4,374,891	554,370	153,117
30880	Unreserved	8,994,046	705,776	-
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	5,751,244	5,114,507	-
320	Licenses and Permits	338,397	288,979	-
330	Intergovernmental Revenues	828,264	217,055	236,082
340	Charges for Goods and Services	5,462,622	94,154	-
350	Fines and Penalties	76,344	76,344	-
360	Miscellaneous Revenues	1,581,769	23,158	-
Total Operating Revenues:		14,038,639	5,814,197	236,082
Operating Expenditures				
510	General Government	1,362,436	1,221,876	-
520	Public Safety	2,941,423	2,941,423	-
530	Utilities	3,157,999	-	-
540	Transportation	999,883	722,241	-
550	Natural and Economic Environment	730,428	479,528	-
560	Social Services	28,650	28,650	-
570	Culture and Recreation	429,807	429,807	-
Total Operating Expenditures:		9,650,625	5,823,525	-
Net Operating Increase (Decrease):		4,388,013	(9,328)	236,082
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	498,559	3,164	-
391-393	Debt Proceeds	529,266	-	-
397	Transfers-In	1,585,388	272,950	100,000
Total Nonoperating Revenues:		2,613,214	276,114	100,000
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	87,590	-	-
591-593	Debt Service	2,964,281	43,389	-
594-595	Capital Expenditures	3,138,063	109,641	427,591
597	Transfers-Out	1,585,388	201,222	-
Total Nonoperating Expenditures:		7,775,322	354,252	427,591
Net Increase (Decrease) in Cash and Investments:		(774,096)	(87,466)	(91,509)
Ending Cash and Investments				
5081000	Reserved	6,832,649	129,123	61,608
5088000	Unreserved	5,762,194	1,043,557	-
Total Ending Cash and Investments		12,594,843	1,172,680	61,608

The accompanying notes are an integral part of this statement.

106 Impact Fees & Mitigation	107 Hotel/Motel Tax	116 Park Capital Improvement	125 Development Projects (CED)	215 2010 LTGO Debt Service (Credit Line & To	216 2011 Fire Station Bond Redempt
1,101,584	1,661	33,982	151,916	-	170,095
-	-	-	-	-	-
-	-	-	-	-	-
-	11,359	-	-	-	189,642
-	-	-	-	-	-
-	-	60,703	-	-	-
306,013	-	-	304,633	-	-
-	-	-	-	-	-
1,654	-	-	-	-	371
307,666	11,359	60,703	304,633	-	190,012
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	8,600	-	242,300	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	8,600	-	242,300	-	-
307,666	2,759	60,703	62,333	-	190,012
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	191,501	-
-	-	-	-	191,501	-
-	-	-	-	-	-
-	-	-	-	191,501	184,830
41,623	-	29,862	-	-	-
445,683	-	-	90,750	-	-
487,306	-	29,862	90,750	191,501	184,830
(179,640)	2,759	30,841	(28,417)	0	5,182
921,945	4,420	64,823	123,499	-	175,277
-	-	-	-	-	-
921,945	4,420	64,823	123,499	-	175,277

The accompanying notes are an integral part of this statement.

217 2012 LTGO (TBD) Bond Redempt	310 Municipal Projects	320 Capital Improvement (REET)	401 Water Operations	402 Sewer Operations	404 Storm & FLOOD Operations
-	-	423,918	89,618	219,445	129,855
45	939,996	-	1,339,522	2,287,718	1,037,670
-	-	-	-	-	-
-	-	435,736	-	-	-
-	-	-	-	-	1,386
157,539	147,084	-	-	-	-
-	-	-	1,643,364	1,751,874	820,341
-	-	-	-	-	-
42	2,601	1,019	3,295	4,945	2,466
157,581	149,685	436,756	1,646,659	1,756,819	824,193
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,023,504	1,564,501	538,271
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,023,504	1,564,501	538,271
157,581	149,685	436,756	623,155	192,318	285,922
-	-	-	154,735	297,270	43,391
-	-	-	529,266	-	-
-	586,758	-	-	-	-
-	586,758	-	684,001	297,270	43,391
-	-	-	87,590	-	-
145,530	-	43,389	201,740	434,823	158,371
-	504,942	-	978,544	963,022	76,053
-	182,200	231,354	-	-	-
145,530	687,142	274,742	1,267,874	1,397,845	234,424
12,051	49,301	162,013	39,282	(908,257)	94,889
12,096	674,451	585,931	89,618	219,445	129,855
-	314,846	-	1,378,803	1,379,462	1,132,558
12,096	989,297	585,931	1,468,421	1,598,907	1,262,413

The accompanying notes are an integral part of this statement.

405 Solid Waste & Recycling Operations	451 ULID #6 Bond Redemption	452 ULID#6 Bond Reserve	501 Equipment Operations	502 Equipment Reserve
-	-	1,345,330	-	-
82,926	2,270,557	-	247	329,590
-	-	-	-	-
-	-	-	-	-
48,032	-	-	-	-
9,801	-	-	-	-
22,673	-	-	462,180	57,391
-	-	-	-	-
227	1,539,311	2,680	-	-
80,733	1,539,311	2,680	462,180	57,391
-	-	-	140,560	-
-	-	-	-	-
31,724	-	-	-	-
-	-	-	277,641	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
31,724	-	-	418,201	-
49,009	1,539,311	2,680	43,979	57,391
-	-	-	-	-
-	-	-	-	-
-	-	434,180	-	-
-	-	434,180	-	-
-	-	-	-	-
-	1,517,319	-	43,389	-
-	-	-	836	5,949
-	434,180	-	-	-
-	1,951,499	-	44,225	5,949
49,009	(412,188)	436,860	(246)	51,442
-	1,858,369	1,782,191	-	-
131,935	-	-	-	381,032
131,935	1,858,369	1,782,191	-	381,032

The accompanying notes are an integral part of this statement.

City of North Bend
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	635 Treasurers Trust	690 Transportation Benefit District (TBD)
308	Beginning Cash and Investments	703,376	61,969	641,407
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	478,390	-	478,390
380-390	Other Increases and Financing Sources	233,724	233,724	-
510-570	Expenditures	152,085	-	152,085
580-590	Other Decreases and Financing Uses	290,374	233,012	57,362
Net Increase (Decrease) in Cash and Investments:		269,655	712	268,943
508	Ending Cash and Investments	973,030	62,680	910,350

The accompanying notes are an integral part of this statement.

City of North Bend
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	635 Treasurers Trust	690 Transportation Benefit District (TBD)
308	Beginning Cash and Investments	603,699	218,076	385,623
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	453,742	-	453,742
380-390	Other Increases and Financing Sources	244,986	244,986	-
510-570	Expenditures	162,620	-	162,620
580-590	Other Decreases and Financing Uses	436,428	401,089	35,339
Net Increase (Decrease) in Cash and Investments:		99,680	(156,103)	255,783
508	Ending Cash and Investments	703,376	61,969	641,407

The accompanying notes are an integral part of this statement.

CITY OF NORTH BEND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of North Bend was incorporated on March 12, 1909 and operates under the laws of the State of Washington applicable to a Code City with a Mayor-Council form of government. The City is a general purpose government and provides a broad range of general government services including planning and community development, street maintenance and improvements, parks and recreation, public works, solid waste and recycling, and general administrative services. The City contracted for police services with King County until March 2014 when it entered into a contract with the City of Snoqualmie. Fire services are provided through a partnership with Eastside Fire and Rescue. In addition, the City owns and operates water, sewer and storm water utility systems. The City uses single-entry, cash basis accounting which is a departure from Generally Accepted Accounting Principles (GAAP).

The City of North Bend reports financial activity in accordance with the *Cash Basis Budgeting, Accounting, and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the City of North Bend are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used by the City of North Bend:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the City of North Bend. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of North Bend.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City of North Bend on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the City of North Bend in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account for assets that the City of North Bend holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City of North Bend also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City of North Bend adopts biennial appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. The biennial budget is implemented as two, one-year financial plans, therefore all appropriations for these funds lapse at the fiscal year end.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

2015 was the first year of the 2015-2016 Biennium. The budget amounts shown in the financial statements reflect that portion of the total appropriation that was authorized for fiscal year 2015. The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$6,521,010	\$6,191,453	\$329,557
Streets Operations Fund	710,122	673,352	36,770
Capital Streets Fund	381,419	370,505	10,914
Streets Overlay Fund	56,200	26,605	29,595
Impact Fees & Mitigation Fund	359,071	147,211	211,860
Hotel/Motel Tax Fund	9,000	9,000	-
Economic Development Fund	139,725	128,209	11,516
Park Capital Improvement Fund	65,082	43,774	21,308
Development Projects (CED) Fund	775,000	690,887	84,113
2010 LTGO Debt Service Fund	194,576	158,356	36,220
2011 Fire Station Bond Redemption Fund	183,700	183,500	200
2012 LTGO (TBD) Bond Redemption Fund	148,400	148,200	200
2015 LTGO Bond Redemption Fund	40,010	36,703	3,307
Municipal Projects Fund	1,088,072	570,679	517,393
Capital Improvement Fund	449,665	281,468	168,197
Water Operations & Capital Fund	1,821,368	1,688,563	132,805
Sewer Operations & Capital Fund	3,113,225	2,763,200	350,025
Storm Operations & Capital Fund	1,756,118	1,691,978	64,140
Flood Operations Fund	126,984	123,101	3,883
Solid Waste & Recycling Operations Fund	45,349	38,484	6,865
ULID #6 Revenue Bond Redemption Fund	10,744,041	10,531,335	212,706
ULID #6 Revenue Bond Reserve Fund	533,465	533,465	-
Equipment Operations Fund	340,934	312,717	28,217
Technology Operations Fund	164,095	144,108	19,987
Technology Reserve Fund	12,150	11,773	377
Total All Funds	\$27,498,629	\$18,214,044	\$2,280,152

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of North Bend's legislative body. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year by ordinance by a majority vote of the City Council.

D. Cash and Investments

See Note 2 - *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

The amount of vacation leave that may be accumulated depends on bargaining unit contracts or if an employee is non-represented. All accumulated vacation leave is payable upon separation or retirement up to the maximum limit.

1. Non-represented employees may accumulate up to one year's vacation leave based on their years of service up to a maximum of 200 hours.
2. Employees represented by a bargaining unit may accumulate up to one year's vacation leave based on their years of service up to a maximum of 160 hours.

Sick leave may be accumulated up to a maximum of 960 hours. Upon separation of employment, employees shall be compensated for any accrued sick leave at 25% of the accrued sick leave value based on the final rate of pay of the employee, except for Public Works employees represented by Local Union No. 763 who will be compensated for any accrued sick leave at 25% of the accrued sick leave value up to a maximum of 160 hours.

Compensatory hours accrued by non-exempt employees will be paid at the overtime rate of 1.5 times the employee's regular rate of pay upon separation of employment.

All leave payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 5 - *Debt Service Requirements*.

H. Other Financing Sources or Uses

The City of North Bend's *Other Financing Sources or Uses* consist of all interfund receivables and payables, and interfund transactions. A separate schedule of interfund loans receivable and payable is furnished in Note 4 – *Interfund Loans*.

I. Risk Management

The City of North Bend is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2015, 102 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased from Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2015, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance or resolution of the City Council. When expenditures that meet restrictions are incurred, the City of North Bend intends to use reserved resources first before using unreserved amounts.

Fund balances not available for spending due to restrictions imposed on them by external parties and/or due to internal commitments are reported as reserved.

Reservations of Ending Cash and Investments at the end of 2015 in the amount of \$8,661,685 consist of:

102	Capital Streets	Legislative Restriction – Tax & City Council Ordinance 1249 (Capital Streets)	\$13,545
103	Streets Overlay	Reserve established by City Council Ordinance 1421	115,763
106	Impact Fees & Mitigation	Legislative Restriction & Developer Agreements	1,045,993
107	Hotel/Motel Tax	Legislative Restriction – Tax	7,785
116	Park Capital Improvement	Legislative Restriction – Tax & Grant Restrictions	67,400
125	Development Projects (CED)	Developer Agreements	162,588
216	2011 Fire Station Bond	Legislative Restriction – Tax	179,868
217	2012 LTGO (TBD) Bond	Bond Restriction	11,797
310	Municipal Projects	Grants & Legislative Restrictions	581,987
320	Capital Improvements (REET)	Legislative Restriction – Tax	813,000
401	Water Operations	Bond & PWTF Loan Restrictions	530,001
402	Sewer Operations	Bond Restriction	219,445
404	Storm & Flood Operations	Bond Restriction	114,267
451	ULID #6 Bond Redemption	Bond Restriction	2,572,461
452	ULID #6 Bond Reserve	Bond Restriction	1,252,755
635	Treasurers Trust	Trust Restriction	62,680
690	Transportation Benefit District	Trust Restriction	910,350

NOTE 2 – DEPOSITS AND INVESTMENTS

It is the City of North Bend's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds, with the exception of interest from Special Revenue

Funds and Internal Service Funds, (except for Impact Fees Fund 106) which is allocated to the General Fund, per the provisions of RCW 35A.40.050.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and/or the Washington Public Deposit Protection Commission (WPDPC). All investments are insured, registered or held by the City of North Bend or its agent in the City of North Bend's name.

Investments are reported at fair value. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	<u>City of North Bend's Own Investments</u>	<u>Investments held by North Bend for</u>		<u>Total</u>
		<u>Others</u>		
L.G.I.P.	\$12,022,222		\$-	\$12,022,222
Certificate of Deposits (CD)	499,155		-	499,155
U.S. Government Securities	1,303,742		-	1,303,742
Total	<u>\$13,825,119</u>		<u>\$-</u>	<u>\$13,825,119</u>

NOTE 3 - PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the City of North Bend. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of North Bend's regular levy for the year 2015 was \$1.44063 per \$1,000 on an assessed valuation of \$1,023,444,893 for a total regular levy of \$1,470,303.

In 2015, the City of North Bend also levied \$0.18326 per \$1,000 for construction of a new Fire Station for a total additional levy of \$186,205.

NOTE 4 – INTERFUND LOANS

The following table displays Interfund loan activity during 2015:

Borrowing Fund	Lending Fund	Balance 1/1/2015	New Loans	Repayments	Balance 12/31/2015
*Water (401)	Sewer (402)	\$87,590	\$--	\$87,590	\$-
	TOTALS	\$87,590	\$--	\$87,590	\$-

***Note:** This Interfund Loan has a maximum authorized amount of \$383,000 per Ordinance #1444.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of North Bend and summarizes the City's debt transactions for the year ended December 31, 2015.

The debt service requirements for general obligation bonds, revenue bonds, Public Works Trust Fund loans and State Revolving Fund loans, including both principal and interest, are as follows:

	General Obligation Bonds	Revenue Bonds	Other Debt ¹	Total Debt
2016	533,300	1,789,749	471,898	2,794,947
2017	530,300	1,782,263	470,935	2,783,498
2018	531,700	1,761,512	469,793	2,763,005
2019	527,250	1,733,263	405,036	2,665,549
2020	536,575	1,689,762	403,893	2,630,230
2021 – 2025	2,088,975	6,583,950	1,773,139	10,446,064
2026 – 2030	940,750	4,779,700	466,725	6,187,175
2031 – 2032	-	1,639,850	127,572	1,767,422
TOTALS	\$5,688,850	\$21,760,049	\$4,588,991	\$32,037,890

¹ Other Debt includes Public Works Trust Fund Loans and State Revolving Fund Loans.

NOTE 6 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) 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, 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
PO Box 48380
Olympia, WA 98504-8380

Also, The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2015 (the measurement dates of the plans), the City of North Bend's proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.022286%	\$1,165,765
PERS 2/3	0.028785%	1,028,504

NOTE 7 – HEALTH & WELFARE

The City of North Bend 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 fewer than 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.

NOTE 8 - OTHER DISCLOSURES

A. Related Party Transactions and Joint Ventures:

- 1) Eastside Fire and Rescue: In 1999, through an Interlocal agreement as provided by RCW 39.34, the consolidation of several agencies created a new Fire and Emergency Medical Services agency called Eastside Fire and Rescue (EF&R). The agencies (principals) joining in this consolidation were King County Fire Protection Districts 10 and 38, and the Cities of Issaquah and North Bend, with the City of Sammamish joining in January 2001. The current Interlocal Agreement is for a seven-year period ending December 31, 2021. Any party may withdraw at the end of any seven-year term by filing with the other parties a notice of withdrawal in January of the seventh year.

EF&R is a joint venture partnership. The entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2015 the equity percentage was as follows:

• Fire District No. 10	\$1,374,083	40.328%
• Fire District No. 38	\$219,312	6.437%
• City of Issaquah	\$754,588	22.147%
• City of North Bend	\$148,724	4.365%
• City of Sammamish	\$910,517	26.723%

EF&R is governed by a Joint Board of Directors which consists of eight Directors appointed from each of the principal's elected officials. The City of Issaquah, City of Sammamish and Fire District 10 are allotted two Board members each; the City of North Bend and Fire District 38 are allotted one Board member each.

The amount of annual contribution for each partner is determined by a funding model agreed upon by all partners and outlined in Exhibit A of the Interlocal Agreement. The funding model utilizes calls for service by first due area of response for each fire station, assessed valuations, and weighted incident types (Fire or EMS), to establish each partner's cost which collectively funds the overall operation. The incident weighting portion of the funding model, which was a revision from the previous funding model, is being phased in gradually over the years 2015 to 2021. Funding formula ratios will be recalculated based upon updated information for the years 2019-2021. Each partner makes monthly payments for their annual operating contribution and an annual payment for their portion of the equipment replacement fund and facilities maintenance fund.

Complete audited financial statements for Eastside Fire & Rescue can be obtained at 175 Newport Way NW, Issaquah, WA 98027.

- 2) Transportation Benefit District (TBD): On July 19, 2011, the City Council adopted Ordinance No. 1436 establishing the North Bend Transportation Improvement District No. 1 (TBD) coextensive with the boundaries of the City. The TBD is an independent taxing district that is governed by a board composed of the seven members of the North Bend City Council who serve in an ex-officio and independent capacity. The primary purpose of the District is to fund, construct, and provide transportation improvements within its boundaries.

The TBD Board passed Resolution No. 01-2011 authorizing the placement of Proposition 1 on the November general election ballot. Proposition 1 – which approved a rate increase of two-tenths of one percent on the sales and use tax within the city limits of North Bend for the purpose of paying for TBD projects, including the repayment of indebtedness and costs incurred to finance those improvements – was passed by City of North Bend voters on November 8, 2011.

In order to most efficiently utilize public funds, and to avoid duplication of effort, TBD accounting is performed by the City of North Bend and the TBD's money is accounted for in City Agency Fund No. 690. In 2015, the TBD received total collections from sales and use taxes of \$476,286. The Transportation Benefit District issues a separate Annual Financial Report which is audited by the Washington State Auditor's Office.

- B. Explosion in Downtown: On April 25, 2014, the City suffered a catastrophic explosion that totally destroyed 3 buildings and damaged over 50 additional structures. The City sustained damage to a restroom/storage building in Torgeson Park and damage to sidewalk, curb, gutters, railing and landscaping. The City received a letter from Travelers Insurance, the insurance company for the owner of the subject property, identifying the City as a possible subrogation party because the City had issued tenant improvement permits at a restaurant that was being constructed on the property. The City reviewed all permits issued at the subject property and determined that the permits were issued appropriately consistent with all applicable codes, rules and regulations. Ultimately no claim or lawsuit was filed. The City was compensated by its insurance company for all damage to its park building as a result of the explosion. Efforts to redevelop the site are currently underway.

- C. Wastewater Treatment Plant Repairs: The City completed three major construction upgrades at its Wastewater Treatment Plant that began in late 2014 and continued into 2015. A small fire in a Fenton dryer during the second quarter of 2014 rendered it inoperable, so the City installed an alternative conveyor conveyance system that bypassed the old dryer and resulted in hauling de-watered sludge. This project was completed in May 2015 and insurance proceeds were received to cover a portion of the costs associated with the repair, equipment and temporary increase in operational costs from hauling watered sludge to another WWTP for treatment and disposal. Second, a concrete effluent weir gate and associated piping was added to the oxidation ditch, which removed a bottleneck and lowered the spill potential during high flow events. Third, the replacement of two older oxidation ditch rotors improved functionality.

Design is currently underway for replacement of the older two Ultraviolet (UV) systems in the WWTP electrical building. Additionally, a new third UV system will be included in the replacement package that will provide additional capacity and required redundancy. Construction of the entire UV system will occur during the 2016 dry season when the inflows to the WWTP are lower. Substantial electrical, control panel and worker safety improvements will also be occurring.

In 2016 the City prepared a preliminary facilities treatment plan for the WWTP that included evaluating possible options for the future WWTP. Options include retrofitting the existing WWTP, building a new WWTP elsewhere in the City, and regionalization by conveying City sewer to the City of Snoqualmie's WWTP down one of several corridors and building major capacity upgrades at the Snoqualmie WWTP. Due to financial constraints the City's preferred option at this point is retrofitting the existing WWTP and funding options are currently being explored. It is anticipated that short-term financing will be in place by the summer of 2016.

The City hired a Wastewater Treatment Plant Manager in early 2015 and is currently in the recruitment process for a new SCADA Supervisor position to be hired in 2016. These two positions will provide critical oversight and technical support for the WWTP's operations.

- D. Sewer Rate Study: The City began working on an updated Sewer Rate Study in 2016. Sewer rates will likely need to increase to pay to replace the aging infrastructure which is past its useful life, construct new infrastructure per expanded Department of Ecology (DOE) Permit requirements, and to provide capacity upgrades. The study includes analyzing Sewer rates and General Facilities Charges (GFCs) to ensure that the utility is charging current and future customers correctly for current operations and future growth.
- E. Sewer ULID #6 Assessment Appeal: The City formed ULID #6 on November 20, 2007 for the purpose of providing the funds necessary to construct certain improvements to the sanitary sewer system in the Tanner and Truck Town areas of the City. 34 of the 415 parcels filed written protests with the Hearing Examiner during the final assessment roll public hearing process. The City Council reduced the assessments on 4 parcels and denied all other protests. The final Assessment roll of \$19,020,359 for Sewer ULID #6 was finalized by the City Council on March 20, 2012. One appeal was filed by six entities/individuals representing assessments in the amount of \$1,547,651, seeking to have the assessments revoked. The Washington State Court of Appeals invalidated the original assessments on these specific properties, but

noted that the City could reassess the six applicants. The appellants, unhappy with this decision, then asked the Supreme Court to review this decision. The Supreme Court denied review. Following these appeal proceedings the City adopted a new ordinance authorizing the reassessment of the appellants' properties, which the appellants again challenged in Superior Court. The Superior Court granted judgment to the City on November 13, 2015, dismissing the appellants' claims and affirming the City's authority to proceed with the reassessments. No appeal was filed, so the Superior Court's judgment is now final. The City is currently in the process of retaining a new appraiser to value the special benefits that accrued to these properties as a result of construction of the sewer system improvements, and to prepare reassessments for these properties. The City funded the sewer improvements using Bond Anticipation Notes, which were paid in full when the City issued Revenue Bonds in the amount of \$16,985,000 in June 2012.

- F. Property Foreclosure: The City is statutorily required to commence foreclosure proceedings of delinquent Local Improvement District assessments. Seven properties (with three different property owners) moved forward in the foreclosure process: one case was dismissed when the balance owed was paid in full; another property was recently purchased, the title company issued a check to pay the balance, and the case will be dismissed when the check clears; and the City is still trying to reach a settlement in the third case, with primary witness disclosure due in June 2015.
- G. GASB 54 Compliance: Per the provisions of GASB 54, Special Revenue Funds are only allowed to be reported if they are used to account for activities that are substantially funded (20% or more) by a restricted or committed revenue sources. Special Revenue Funds that do not meet this requirement are rolled-up into the General Fund for reporting purposes. For 2015, Fund 101 (Streets Operations) and Fund 108 (Economic Development) are rolled-up into the General Fund (001) totals.
- H. Public Safety Sales Tax Ballot Measure: On May 20, 2014 the City Council passed a resolution placing a public safety sales tax measure on the November 4, 2014 election ballot. This local sales & use tax of one-tenth of one percent (0.1%) is authorized by RCW 82.14.450 for public safety purposes. By State law, the additional revenue generated from this tax would be split 85% to the City of North Bend and 15% to King County, and at least one-third must be used for criminal justice or fire protection purposes, or both. It is North Bend's intention to use all of the proceeds generated for public safety and criminal justice purposes. The additional 0.1% sales & use tax is anticipated to generate approximately \$200,000 annually, and is being used for an additional police officer, for additional police emphasis patrols as needed, and to offset increase fire protection service costs. This ballot measure passed and the sales tax increase became effective April 1, 2015.
- I. Transition to Biennial Budgeting: On May 20, 2014, the City Council passed Ordinance No. 14-054 authorizing the change to biennial budgeting effective for the budget years of 2015-2016. A biennial budget was adopted by Ordinance No. 14-124 on December 2, 2014. The biennial budget will be implemented as two one-year financial plans. Actual expenditures in the first year may not exceed the first year plan appropriations, and second year plan appropriations shall only be expended in the second year. Any changes to the budget

appropriations will occur with Council approval as part of quarterly budget adjustments or as part of the mid-biennium budget review. The mid-biennium budget review occurred during the last four months of the year in accordance with the provisions of RCW 35A.34, with the modification ordinance adoption on December 8, 2015.

- J. Bond Rating Upgrade: On September 10, 2014 the City of North Bend was notified by Standard & Poor's Ratings Services that they had raised the City's unlimited tax and limited tax General Obligation bond rating from AA- to AA with a stable outlook. The AA rating means that, in S&P's opinion, the City of North Bend has a very strong capacity to meet financial commitments and they view the City's economy as very strong. This rating was reviewed and affirmed by S&P on June 15, 2015 and a rating of AA/Stable was also assigned to the new 2015 LTGO bonds.

Additionally, Standard & Poor's Ratings Services revised the outlook to positive from stable and affirmed it's A+ long-term rating on the City's previously issued water and sewer revenue bonds. The rating of A+/positive was also assigned to the new 2015 Water and Sewer Revenue refunding bonds.

- K. Visitor Information Center (VIC): The North Bend Visitor Information Center and Mountain View Art Gallery opened in late September 2014 in a building leased by the City of North Bend. In 2015 the City entered into a contract for services with the North Bend Downtown Foundation to define responsibilities and financial obligations. Per the Agreement, the City paid the Downtown Foundation \$48,520 in 2015 to operate and manage the VIC. The City is also responsible for the building lease, utilities and custodial services, and exterior beautification efforts. Funding for the City's contribution comes from lodging taxes and General Fund revenues.
- L. LTGO Bond Refinancing: The City Council adopted Ordinance No. 15-1554 on May 19, 2015 authorizing refunding the existing 2010 Limited Tax General Obligation (LTGO) Bonds and issuing new LTGO Bonds in an amount not to exceed \$2,100,000. The 2015 LTGO bonds were issued on July 9, 2015 in the amount of \$1,900,000. The new bonds have a twelve year redemption schedule with a final maturity date of December 1, 2026 and an average coupon interest rate of 2.88%.
- M. Revenue Bond Refinancing: The City Council adopted Ordinance No. 15-1555 on May 19, 2015 authorizing refunding portions of the existing 2006 Revenue Bonds (\$910,000) and 2012 Revenue Bonds (\$8,725,000) and issuing new Water and Revenue Sewer Bonds in a total amount not to exceed \$10,000,000. The 2015 Water and Sewer Revenue Refunding Bonds were issued on July 9, 2015 in the amount of \$9,245,000. The new bonds have a seventeen year redemption schedule with a final maturity date of August 1, 2032 and an average coupon interest rate of 3.53%.
- N. Salish Avenue SE Extension Annexation: Petitioned by property owners in 2013, the Salish Avenue SE Extension Annexation, a small annexation area located southeast of the City's boundaries, was approved by the King County Boundary Review Board in February 2015 and accepted by the City Council on March 17, 2015.

- O. Square Footage Business & Occupation Tax: On May 3, 2016 the City Council adopted Ordinance No. 1587 amending the North Bend Municipal Code relating to Business & Occupation Taxes to create a square footage tax with tiered rates based on the square footage of the buildings subject to the tax. The square footage tax is applicable to warehouses, distribution facilities, self-storage facilities, industrial and/or light manufacturing use or research space with a square footage of 10,000 or more. The ordinance provides an exemption for vacant buildings for no more than 2 years. The additional revenue generated from this tax will be dedicated to the maintenance of the City's street infrastructure, with a primary emphasis on pavement management.
- P. Glazier Antique Mall Deed of Trust and Full Reconveyance: The City attempted to acquire a property through purchase of a Promissory Note (Note) and Deed of Trust from Judy Olson. The Deed of Trust was secured by a property located on North Bend Way improved by a structure commonly known as the Antique Mall. Under the terms of the Note, the Borrower could pay off the Note with no prepayment penalty. The Borrower elected to do so and the City executed a full reconveyance of the Deed of Trust in May 2016 and returned the Note to William Glazier, owner of the Antique Mall.
- Q. D4 Real Estate Development v. City of North Bend: A developer ("D4D") filed a LUPA petition challenging the City's refusal to accept D4D's development application under the current moratorium on applications and approvals for development in the cottage residential zoning district. The Complaint seeks declaratory judgment, specific performance, and unquantified damages. The lawsuit was filed and served on May 16, 2016, and as of the date of this report, the City has only filed its notice of appearance in the matter.

CITY OF NORTH BEND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of North Bend was incorporated on March 12, 1909 and operates under the laws of the State of Washington applicable to a Code City with a Mayor-Council form of government. The City is a general purpose government and provides a broad range of general government services including planning and community development, street maintenance and improvements, parks and recreation, public works, solid waste and recycling, and general administrative services. The City contracted for police services with King County until March 2014 when it entered into a contract with the City of Snoqualmie. Fire services are provided through a partnership with Eastside Fire and Rescue. In addition, the City owns and operates water, sewer and storm water utility systems. The City uses single-entry, cash basis accounting which is a departure from Generally Accepted Accounting Principles (GAAP).

The City of North Bend reports financial activity in accordance with the *Cash Basis Budgeting, Accounting, and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the City of North Bend are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used by the City of North Bend:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the City of North Bend. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of North Bend.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City of North Bend a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the City of North Bend in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account for assets that the City of North Bend holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City of North Bend also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City of North Bend adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$6,185,149	\$6,093,972	\$91,177
Streets Operations Fund	719,007	684,261	34,746
Capital Streets Fund	147,762	115,911	31,851
Streets Overlay Fund	474,026	427,591	46,435
Impact Fees & Mitigation Fund	682,183	487,306	194,877
Hotel/Motel Tax Fund	8,600	8,600	-
Economic Development Fund	90,634	71,729	18,905
Park Capital Improvement Fund	33,000	29,862	3,138
Development Projects (CED) Fund	365,500	333,050	32,450
2010 LTGO Debt Service Fund	191,900	191,501	399
2011 Fire Station Bond Redemption Fund	335,100	184,830	150,270
2012 LTGO (TBD) Bond Redemption Fund	145,825	145,530	295
Municipal Projects Fund	1,590,498	687,142	903,356
Capital Improvement Fund	303,446	274,742	28,704
Water Operations & Capital Fund	2,828,242	2,291,378	536,864
Sewer Operations & Capital Fund	3,278,467	2,962,345	316,122
Storm Operations & Capital Fund	670,285	668,267	2,018
Flood Operations Fund	104,785	104,428	357
Solid Waste & Recycling Operations Fund	50,476	31,724	18,752
ULID #6 Construction Fund	-	-	-
ULID #6 Revenue Bond Redemption Fund	1,952,100	1,951,499	601
Equipment Operations Fund	336,458	321,031	15,427
Technology Operations Fund	145,517	141,396	4,121
Technology Reserve Fund	5,950	5,949	1
Total All Funds	\$20,644,910	\$18,214,044	\$2,430,866

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of North Bend's legislative body. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year by ordinance by a majority vote of the City Council.

D. Cash and Investments

See Note 2 - *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

The amount of vacation leave that may be accumulated depends on bargaining unit contracts or if an employee is non-represented. All accumulated vacation leave is payable upon separation or retirement up to the maximum limit.

1. Non-represented employees may accumulate up to one year's vacation leave based on their years of service up to a maximum of 200 hours.
2. Employees represented by a bargaining unit may accumulate up to one year's vacation leave based on their years of service up to a maximum of 160 hours.

Sick leave may be accumulated up to a maximum of 960 hours. Upon separation of employment, employees shall be compensated for any accrued sick leave at 25% of the accrued sick leave value based on the final rate of pay of the employee, except for Public Works employees represented by Local Union No. 763 who will be compensated for any accrued sick leave at 25% of the accrued sick leave value up to a maximum of 160 hours.

Compensatory hours accrued by non-exempt employees will be paid at the overtime rate of 1.5 times the employee's regular rate of pay upon separation of employment.

All leave payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 5 - *Debt Service Requirements*.

H. Other Financing Sources or Uses

The City of North Bend's *Other Financing Sources or Uses* consist of all interfund receivables and payables, and interfund transactions. A separate schedule of interfund loans receivable and payable is furnished in Note 4 – *Interfund Loans*.

I. Risk Management

The City of North Bend is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2014, 94 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased from Starr Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2014, AWC RMSA carried a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance or resolution of the City Council. When expenditures that meet restrictions are incurred, the City of North Bend intends to use reserved resources first before using unreserved amounts.

Fund balances not available for spending due to restrictions imposed on them by external parties and/or due to internal commitments are reported as reserved.

Reserved fund balances at the end of 2014 in the amount of \$7,536,027 are set aside as follows:

001	General Fund	Legislative Restriction – Tax & City Council Ordinance 1249 (Capital Streets)	\$129,123
103	Streets Overlay	Reserve established by City Council Ordinance 1421	61,608
106	Impact Fees & Mitigation	Legislative Restriction & Developer Agreements	921,945
107	Hotel/Motel Tax	Legislative Restriction – Tax	4,420
116	Park Capital Improvement	Legislative Restriction – Tax & Grant Restrictions	64,823
125	Development Projects (CED)	Developer Agreements	123,499
216	2011 Fire Station Bond	Legislative Restriction – Tax	175,277
217	2012 LTGO (TBD) Bond	Bond Restriction	12,096
310	Municipal Projects	Grants & Legislative Restrictions	674,451
320	Capital Improvements (REET)	Legislative Restriction – Tax	585,931
401	Water Operations	Bond Restriction	89,618
402	Sewer Operations	Bond Restriction	219,445
404	Storm & Flood Operations	Bond Restriction	129,855
451	ULID #6 Bond Redemption	Bond Restriction	1,858,369
452	ULID #6 Bond Reserve	Bond Restriction	1,782,191
635	Treasurers Trust	Trust Restriction	61,969
690	Transportation Benefit District	Trust Restriction	641,407

NOTE 2 – DEPOSITS AND INVESTMENTS

It is the City of North Bend's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds, with the exception of interest from Special Revenue Funds and Internal Service Funds, (except for Impact Fees Fund 106) which is allocated to the General Fund, per the provisions of RCW 35A.40.050.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and/or the Washington Public Deposit Protection Commission (WPDPC). All investments are insured, registered or held by the City of North Bend or its agent in the City of North Bend's name.

Investments are reported at fair value. Investments by type at December 31, 2014 are as follows:

Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	<u>City of North Bend's Own Investments</u>	<u>Investments held by North Bend for</u>		<u>Total</u>
		<u>Others</u>		
L.G.I.P.	\$11,772,647	\$-		\$11,772,647
Certificate of Deposits (CD)	497,660	-		497,660
U.S. Government Securities	1,303,742	-		1,303,742
Total	<u>\$13,574,049</u>	<u>\$-</u>		<u>\$13,574,049</u>

NOTE 3 - PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the City of North Bend. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of North Bend's regular levy for the year 2014 was \$1.60481 per \$1,000 on an assessed valuation of \$853,937,108 for a total regular levy of \$1,365,919.

In 2014, the City of North Bend also levied \$0.22665 per \$1,000 for construction of a new Fire Station for a total additional levy of \$191,847.

NOTE 4 – INTERFUND LOANS

The following table displays Interfund loan activity during 2014:

Borrowing Fund	Lending Fund	Balance 1/1/2014	New Loans	Repayments	Balance 12/31/2014
*Water (401)	Sewer (402)	\$175,180	\$--	\$87,590	\$87,590
	TOTALS	\$175,180	\$--	\$	\$87,590

***Note:** This Interfund Loan has a maximum authorized amount of \$383,000 per Ordinance #1444.

NOTE 5 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of North Bend and summarizes the City's debt transactions for the year ended December 31, 2014.

The debt service requirements for general obligation bonds, revenue bonds, Public Works Trust Fund loans and State Revolving Fund loans, including both principal and interest, are as follows:

	General Obligation Bonds	Revenue Bonds	Other Debt ¹	Total Debt
2015	536,693	1,998,937	484,216	3,019,846
2016	528,343	1,871,051	482,712	2,882,106
2017	524,593	1,855,256	481,207	2,861,056
2018	525,243	1,833,705	479,703	2,838,651
2019	524,943	1,804,620	414,585	2,744,148
2020 – 2024	2,211,580	7,575,659	2,010,429	11,797,668
2025 – 2029	1,571,344	5,610,716	644,678	7,826,738
2030 – 2032	117,390	2,753,326	197,702	3,068,418
TOTALS	\$6,540,129	\$25,303,270	\$5,195,232	\$37,038,631

¹ Other Debt includes Public Works Trust Fund Loans and State Revolving Fund Loans.

NOTE 6 - PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of North Bend's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

NOTE 7 – HEALTH & WELFARE

The City of North Bend 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, 2014, 263 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 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 fewer than 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 the AWC Board of Directors President and Vice President. 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.

NOTE 8 - OTHER DISCLOSURES

A. Related Party Transactions and Joint Ventures:

- 1) Eastside Fire and Rescue: In 1999, through an Interlocal agreement as provided by RCW 39.34, the consolidation of several agencies created a new Fire and Emergency Medical Services agency called Eastside Fire and Rescue (EF&R). The agencies (principals) joining in this consolidation were King County Fire Protection Districts 10 and 38, and the Cities of Issaquah and North Bend, with the City of Sammamish joining in January 2001. The current Interlocal Agreement is for a seven-year period ending December 31, 2021. Any party may withdraw at the end of any seven-year term by filing with the other parties a notice of withdrawal in January of the seventh year.

EF&R is a joint venture partnership. The entities retain an equity interest in EF&R based on their support of EF&R operations. As of December 31, 2014 the equity percentage was as follows:

• Fire District No. 10	\$1,323,355	40.89%
• Fire District No. 38	\$201,537	6.23%
• City of Issaquah	\$701,326	21.92%
• City of North Bend	\$139,429	4.31%
• City of Sammamish	\$862,458	26.65%

EF&R is governed by a Joint Board of Directors which consists of eight Directors appointed from each of the principal's elected officials. The City of Issaquah, City of Sammamish and

Fire District 10 are allotted two Board members each; the City of North Bend and Fire District 38 are allotted one Board member each.

The amount of annual contribution for each partner is determined by a funding model agreed upon by all partners and outlined in Exhibit A of the Interlocal Agreement. The funding model utilizes calls for service by first due area of response for each fire station, assessed valuations, and weighted incident types (Fire or EMS), to establish each partner's cost which collectively funds the overall operation. The incident weighting portion of the funding model, which was a revision from the previous funding model, is being phased in gradually over the years 2015 to 2021. Funding formula ratios will be recalculated based upon updated information for the years 2019-2021. Each partner makes monthly payments for their annual operating contribution and an annual payment for their portion of the equipment replacement fund and facilities maintenance fund.

Complete audited financial statements for Eastside Fire & Rescue can be obtained at 175 Newport Way NW, Issaquah, WA 98027.

- 2) Transportation Benefit District (TBD): On July 19, 2011, the City Council adopted Ordinance No. 1436 establishing the North Bend Transportation Improvement District No. 1 (TBD) coextensive with the boundaries of the City. The TBD is an independent taxing district that is governed by a board composed of the seven members of the North Bend City Council who serve in an ex-officio and independent capacity. The primary purpose of the District is to fund, construct, and provide transportation improvements within its boundaries.

The TBD Board passed Resolution No. 01-2011 authorizing the placement of Proposition 1 on the November general election ballot. Proposition 1 – which approved a rate increase of two-tenths of one percent on the sales and use tax within the city limits of North Bend for the purpose of paying for TBD projects, including the repayment of indebtedness and costs incurred to finance those improvements – was passed by City of North Bend voters on November 8, 2011.

In order to most efficiently utilize public funds, and to avoid duplication of effort, TBD accounting is performed by the City of North Bend and the TBD's money is accounted for in City Agency Fund No. 690. In 2014, the TBD received total collections from sales and use taxes of \$452,606. The Transportation Benefit District issues a separate Annual Financial Report which is audited by the Washington State Auditor's Office.

- B. Explosion in Downtown: On April 25, 2014, the City suffered a catastrophic explosion that totally destroyed 3 buildings and damaged over 50 additional structures. The City sustained damage to a restroom/storage building in Torgeson Park and damage to sidewalk, curb, gutters, railing and landscaping. The City received a letter from Travelers Insurance, the insurance company for the owner of the subject property, identifying the City as a possible subrogation party because the City had issued tenant improvement permits at a restaurant that was being constructed on the property. The City has reviewed all permits issued at the subject property and determined that the permits were issued appropriately consistent with all applicable codes, rules and regulations. The City believes if any claim is filed against the

City, the lawsuit will be quickly resolved in the City's favor. The City was also compensated by its insurance company for all damage to its park building as a result of the explosion. Efforts to redevelop the site are currently underway.

- C. Wastewater Treatment Plant Repairs: The City's Wastewater Treatment Plant experienced a small fire in its Fenton dryer during the second quarter of 2014 making it inoperable. Starting in May 2014 the City was required to haul its watered sludge to another WWTP for treatment and disposal. The cost of such hauling is over \$100,000 a month. An insurance claim is pending and the City expects to receive proceeds to cover repair costs to the dryer and associated equipment and increased operational costs associated with the fire.

The City has been working to address some ongoing issues and needed upgrades at the Wastewater Treatment Plant (WWTP). The oxidation ditch had an effluent weir gate added which removed a bottleneck during high flow events. In addition, the replacement of two oxidation ditch rotors improved functionality. The City also installed an alternative conveyer conveyance system for bypassing the Fenton dryer and this project was completed in May 2015. The Treatment Plant's SCADA system is also receiving some needed equipment tie-ins and programming.

- D. Sewer ULID #6 Assessment Appeal: The City formed ULID #6 on November 20, 2007 for the purpose of providing the funds necessary to construct certain improvements to the sanitary sewer system in the Tanner and Truck Town areas of the City. 34 of the 415 parcels filed written protests with the Hearing Examiner during the final assessment roll public hearing process. The City Council reduced the assessments on 4 parcels and denied all other protests. The final Assessment roll of \$19,020,359 for Sewer ULID #6 was finalized by the City Council on March 20, 2012. One appeal was filed by six entities/individuals representing assessments in the amount of \$1,547,651, seeking to have the assessments revoked. The Washington State Court of Appeals authorized the City to reassess the six appellants and the appellants, unhappy with this decision, have asked the Supreme Court to review this decision. The Supreme Court denied review. The City has commenced the reassessment process against the six appellants. As expected, appellants are challenging the reassessment. The City is confident it will prevail in any subsequent litigation. The City funded the sewer improvements using Bond Anticipation Notes, which were paid in full when the City issued Revenue Bonds in the amount of \$16,985,000 in June 2012.
- E. Litigation: Herman v. City of North Bend - A local tattoo parlor owner filed a lawsuit claiming that his First Amendment rights were violated when the City refused to grant him a business license to operate a tattoo parlor as part of a home occupation business in the Downtown Commercial zone. The City filed a Motion for an injunction in connection with the City's counterclaim that the plaintiff is operating a business in violation of City land use codes and business license codes. The trial was held in early 2015 and the trial court ruled in the City's favor dismissing all of Herman's claims with prejudice. The City paid no damages.
- F. Litigation: New Cingular Wireless (AT&T) - This case arose when customer of New Cingular Wireless noticed that they were being charged for local utility tax on their monthly statements. The customers brought a class action suit alleging that they were wrongfully

charged and that they wrongfully paid these taxes. The matter was settled. As part of the settlement, Cingular sued the City North Bend and numerous other Washington cities seeking to recover monies it paid to cities as utility tax (which it then passed through to its customers). A global settlement was reached with all Washington cities and North Bend paid \$1,636 to settle this matter.

- G. Property Foreclosure: The City is statutorily required to commence foreclosure proceedings of delinquent Local Improvement District assessments on seven properties.
- H. GASB 54 Compliance: Per the provisions of GASB 54, Special Revenue Funds are only allowed to be reported if they are used to account for activities that are substantially funded (20% or more) by a restricted or committed revenue sources. Special Revenue Funds that do not meet this requirement are rolled-up into the General Fund for reporting purposes. For 2014, Fund 101 (Streets Operations), 102 (Capital Streets), and 108 (Economic Development) are rolled-up into the General Fund (001) totals.
- I. Public Safety Sales Tax Ballot Measure: On May 20, 2014 the City Council passed a resolution placing a public safety sales tax measure on the November 4, 2014 election ballot. This local sales & use tax of one-tenth of one percent (0.1%) is authorized by RCW 82.14.450 for public safety purposes. By State law, the additional revenue generated from this tax would be split 85% to the City of North Bend and 15% to King County, and at least one-third must be used for criminal justice or fire protection purposes, or both. It is North Bend's intention to use all of the proceeds generated for public safety and criminal justice purposes. The additional 0.1% sales & use tax is anticipated to generate approximately \$200,000 annually, will be used to hire an additional police officer, for additional police emphasis patrols as needed, and to offset increase fire protection service costs. This ballot measure passed and the sales tax increase became effective April 1, 2015.
- J. Transition to Biennial Budgeting: On May 20, 2014, the City Council passed Ordinance No. 14-054 authorizing the change to biennial budgeting effective for the budget years of 2015-2016. A biennial budget was adopted by Ordinance No. 14-124 on December 2, 2014. The biennial budget will be implemented as two one-year financial plans. Actual expenditures in the first year may not exceed the first year plan appropriations, and second year plan appropriations shall only be expended in the second year. Any changes to the budget appropriations will occur with Council approval as part of quarterly budget adjustments or as part of the mid-biennium budget review. The mid-biennium budget review will occur during the last four months of the year in accordance with the provisions of RCW 35A.34.
- K. Bond Rating Upgrade: On September 10, 2014 the City of North Bend was notified by Standard & Poor's Ratings Services that they had raised the City's unlimited tax and limited tax General Obligation bond rating from AA- to AA with a stable outlook. The AA rating means that, in S&P's opinion, the City of North Bend has a very strong capacity to meet financial commitments and they view the City's economy as very strong.
- L. Visitor Information Center (VIC): The North Bend Visitor Information Center and Mountain View Art Gallery opened in late September 2014 in a building leased by the City of North

Bend. In 2015 the City entered into a contract for services with the North Bend Downtown Foundation to define responsibilities and financial obligations. Per the Agreement, the City will pay the Downtown Foundation \$48,520 in 2015 to operate and manage the VIC. The City is also responsible for the building lease, utilities and custodial services, and exterior beautification efforts. Funding for the City's contribution comes from lodging taxes and General Fund revenues.

- M. LTGO Bond Refinancing: The City Council adopted Ordinance No. 15-1554 on May 19, 2015 authorizing refunding the existing 2010 LTGO Bonds and issuing new LTGO Bonds in a total amount not to exceed \$2,100,000. The bonds will be sold at a negotiated sale based on favorable market conditions, with an expected delivery date of the 2015 LTGO Bonds in early July 2015.
- N. Revenue Bond Refinancing: The City Council adopted Ordinance No. 15-1555 on May 19, 2015 authorizing refunding portions of the existing 2006 Revenue Bonds and 2012 Revenue Bonds and issuing new Water and Revenue Sewer Bonds in a total amount not to exceed \$10,000,000. The bonds will be sold at a negotiated sale based on favorable market conditions, with an expected delivery date of the 2015 Revenue Bonds in early July 2015.
- O. Salish Avenue SE Extension Annexation: Petitioned by property owners in 2013, the Salish Avenue SE Extension Annexation, a small annexation area located southeast of the City's boundaries, was approved by the King County Boardary Review Board in February 2015 and accepted by the City Council on March 17, 2015.

City of North Bend
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2012 Non-Voted LTGO Bonds (TBD)	12/1/2021	930,000	-	125,000	805,000
251.11	GO Refunding Bonds - 2015 LTGO	12/1/2026	-	1,774,030	18,674	1,755,356
251.21	GO Refunding Bonds - 2015 LTGO	12/1/2026	-	125,970	1,326	124,644
251.11	GO Refunding Bonds - 2010 LTGO	7/1/2030	1,784,750	-	1,784,750	-
251.21	GO Refunding Bonds - 2010 LTGO	7/1/2030	315,250	-	315,250	-
251.22	2011 Voted UTGO Bonds (Fire Station)	12/1/2030	2,005,000	-	100,000	1,905,000
263.98	Compensated Absences - Governmental Funds		105,563	24,359	-	129,922
Total General Obligation Debt/Liabilities:			5,140,563	1,924,359	2,345,000	4,719,922
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	SRF - SOE - I&I Project - Phase I	7/1/2018	231,007	-	54,038	176,969
252.11	Revenue Bonds - 2010 Water & Sewer Refunding	9/1/2021	1,765,000	-	315,000	1,450,000
263.82	SRF - DOE - I&I Project - Phase II	1/1/2024	335,001	-	35,036	299,965
263.82	DOE - CCWF - WWTP Phase 2 (A,B & C)	1/1/2024	1,381,831	-	129,077	1,252,754
252.11	Revenue Bonds - Storm Capital Projects	9/1/2026	1,050,000	-	980,000	70,000
263.82	PWTF Loan - Water Source Development	9/1/2026	1,554,285	-	129,524	1,424,761
263.82	SRF Loan - Drinking H2O - CT Piping	9/1/2026	142,876	-	11,906	130,970
263.82	PWTF Loan - 415th Ave SE - Water Main Replacement	6/1/2032	523,664	602,291	49,667	1,076,288
252.11	Revenue Bonds - 2012 ULID #6	8/1/2032	15,285,000	-	9,575,000	5,710,000
252.11	Revenue Bonds - 2015 Storm Capital Projects Refunding	8/1/2032	-	850,000	-	850,000
252.11	Revenue Bonds - 2015 Refunding (2012 ULID #6)	8/1/2032	-	8,395,000	-	8,395,000
259.12	Compensated Absences - Proprietary Funds		75,276	17,824	-	93,100
264.30	Net Pension Liability		-	2,194,269	-	2,194,269
Total Revenue and Other (non G.O.) Debt/Liabilities:			22,343,940	12,059,384	11,279,248	23,124,076
Total Liabilities:			27,484,503	13,983,743	13,624,248	27,843,998

City of North Bend
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2012 Non-Voted LTGO Bonds (TBD)	12/1/2021	1,050,000	-	120,000	930,000
251.11	GO Refunding Bonds - 2010 LTGO	7/1/2030	1,898,250	-	113,500	1,784,750
251.19	GO Refunding Bonds - 2010 LTGO	7/1/2030	321,750	-	6,500	315,250
251.14	2011 Voted UTGO Bonds (Fire Station)	12/1/2030	2,105,000	-	100,000	2,005,000
259.11	Compensated Absences - Governmental Funds		89,626	15,937	-	105,563
Total General Obligation Debt/Liabilities:			5,464,626	15,937	340,000	5,140,563
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	SRF - DOE - I&I Project - Phase I	7/1/2018	282,744	-	51,737	231,007
252.11	Revenue Bonds - 2010 Water & Sewer Refunding	9/1/2021	2,070,000	-	305,000	1,765,000
263.82	SRF - DOE - I&I Project - Phase II	1/1/2024	369,518	-	34,517	335,001
263.82	DOE - CCWF - WWTP Phase 2 (A,B & C)	1/1/2024	1,508,994	-	127,163	1,381,831
252.11	Revenue Bonds - Storm Capital Projects	9/1/2026	1,115,000	-	65,000	1,050,000
263.82	PWTF Loan - Water Source Development	9/1/2026	1,683,809	-	129,524	1,554,285
263.82	SRF Loan - Drinking H2O - CT Piping	9/1/2026	154,782	-	11,906	142,876
252.11	Revenue Bonds - 2012 ULID #6	8/1/2032	16,135,000	-	850,000	15,285,000
263.82	PWTF Loan - 415th Ave SE - Water Main Replacement	6/1/2032	-	529,266	5,602	523,664
259.12	Compensated Absences - Proprietary Funds		75,024	252	-	75,276
Total Revenue and Other (non G.O.) Debt/Liabilities:			23,394,871	529,518	1,580,449	22,343,940
Total Liabilities:			28,859,497	545,455	1,920,449	27,484,503

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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