



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of Bellingham

For the period January 1, 2019 through December 31, 2019

Published September 3, 2020

Report No. 1026732





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

September 3, 2020

Mayor and City Council
City of Bellingham
Bellingham, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Bellingham January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.218	CDBG – Entitlement Grants Cluster – Community Development Block Grants/Entitlement Grants

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Bellingham
January 1, 2019 through December 31, 2019**

Mayor and City Council
City of Bellingham
Bellingham, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Bellingham, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 28, 2020.

As discussed in Note 21 to the financial statements, during the year ended December 31, 2019, the City implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, and Statement No. 84, *Fiduciary Activities*.

As discussed in Note 23 the financial statements, in February 2020 a state of emergency was declared that could have a negative financial effect on the City.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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Pat McCarthy

State Auditor

Olympia, WA

July 28, 2020

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

**City of Bellingham
January 1, 2019 through December 31, 2019**

Mayor and City Council
City of Bellingham
Bellingham, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Bellingham, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE


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

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

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

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

July 28, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Bellingham January 1, 2019 through December 31, 2019

Mayor and City Council
City of Bellingham
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Bellingham, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Bellingham, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 21 to the financial statements, in 2019, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

As discussed in Note 23 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 be presented to supplement the basic financial statements. Such information, although not a part

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

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2020 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

July 28, 2020

FINANCIAL SECTION

City of Bellingham January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Governmental Funds Balance Sheet – 2019

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2019

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2019

Statement of Cash Flows – Proprietary Funds – 2019

Statement of Fiduciary Net Position – Fiduciary Funds – 2019

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Legal Basis – General Fund – 2019

Reconciliation of the Schedule of Revenue, Expenditures and Changes in Fund Balance – Differences in Actual Amounts of General Fund Legal Basis and General Fund GAAP Basis – 2019

Schedule of City's Proportionate Share of State Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1 and LEOFF 2 – 2019

Schedule of Contributions – PERS 1, PERS 2/3, LEOFF 1 and LEOFF 2 – 2019

Schedule of Changes in Total Pension Liability and Related Ratios – FFP and POP –
2019

Schedule of Changes in Total OPEB Liability and Related Ratios – FFP and POP – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Bellingham presents this discussion and analysis as part of the financial statements for the fiscal year ended December 31, 2019. The information presented should be read in conjunction with the letter of transmittal, financial statements, and the notes to the financial statements.

Financial highlights

- At December 31, 2019, the City's government-wide net position, the amount by which total assets and deferred outflow of resources exceed total liabilities and deferred inflow of resources, totaled \$873.2 million. Of this amount, \$653.7 million, or 75%, is the net investment in capital assets. Of the remaining net position, \$53.8 million is unrestricted and may be used to meet the City's ongoing obligations.
- The net position of governmental activities is \$545.8 million, an increase of \$49.9 million, or 10.1% from 2018. This increase is due in part to prior period adjustments totaling \$13.8 million. The implementation of GASB 73 changed the Pension and OPEB funds from being reported as trust fund fiduciary activities to now be reported within the General fund as non-trust governmental activities. This change in accounting principle resulted in an increase in net position of \$9.2 million. An additional adjustment of \$4.6 million was made to recognize tax revenue in 2018 that was received in 2019 (see Note 22). Before the prior period adjustments, the increase in net position of governmental activities was \$36.2 million.
- The net position of business-type activities is \$327.4 million, which represents an increase of \$10.1 million, or 3.2% over 2018. This increase was due primarily to activity in the Water and Wastewater funds.

Overview of the financial statements

This discussion and analysis is intended to provide an introduction to the basic financial statements. The basic financial statements consist of three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide financial statements

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. These statements are reported using full accrual basis of accounting. All funds are represented except custodial fund types.

- **The Statement of Net Position** presents financial information on all assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increased or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- **The Statement of Activities** presents financial information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cashflows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish function of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety,

transportation, natural and economic resources, social services, and culture and recreation. The business-type activities of the City include water, wastewater, surface and stormwater, solid waste, cemetery, golf course, parking, medic one, and development services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate entity, the Bellingham-Whatcom Public Facility District (PFD) (known as the discretely presented component unit) for which the City is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Fund financial statements

While the government-wide statement looks at the City as a whole and focus on types of activities (general government versus business-type activities), the fund financial statements provide a more detailed look at the City's individual major funds and combined fund types.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and custodial funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund statements include balance sheets and statements of revenues, expenditures, and changes in fund balance. The accounting basis used is modified accrual and there are no capital assets or long-term debt included in these statements. Unlike the full accrual basis of accounting used in government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to compare the governmental fund statements and the *governmental activities* in the government-wide statements.

The City reports 22 individual governmental funds. Information for the General fund, the City's only major governmental fund, is presented separately in the basic statements. Data from the City's other governmental funds including special revenue, debt service, capital project, and permanent funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

Budgetary comparisons are included with the financial statements in the combining and individual fund statements section of the report and the required supplementary information section for the legally adopted General fund budget. These statements demonstrate compliance with the City's adopted and final revised budget.

Proprietary funds are used to account for the City's business-type activities where all, or part, of the cost of activities are supported by fees and charges that are paid directly by those who benefit from the activities. The fund level statements provide the same type of information as the government-wide

financial statements, only in more detail since both apply the accrual basis of accounting. In comparing the total assets and total liabilities between the two statements, you will notice only slight differences. One notable difference is that the “due from other fund” (asset) and the “due to other funds” (liability) are combined in a single line called “Internal balances” in the assets section of the government-wide Statement of Net Position. Proprietary fund statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows.

The City reports two types of proprietary funds: enterprise and internal service funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City has nine enterprise funds, which account for the operations of four major funds: Water, Wastewater, Surface and Stormwater, and Solid Waste, and five other funds that are aggregated in the non-major enterprise fund column. *Internal service* funds are used to report activities that provide supplies and services for many City programs and to accumulate and allocate the associated costs of providing these supplies and services to the various functions. The internal service funds account for the nine funds: Fleet Administration, Purchasing Materials Management, Facilities Administration, Technology and Telecom, Claims and Litigation, Unemployment Compensation, Worker's Compensation Self-Insurance, Health Benefits, and Public Works Administration and Engineering. Because these internal fund services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The Proprietary Fund Statement of Net Position and the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position present separate columns of financial data for the four major enterprise funds. Data from the remaining enterprise funds and internal service fund are combined and presented in their own, single, aggregated columns in the fund statement. Individual fund data for each of the non-major enterprise funds, as well as the internal service funds, are provided in combining statement following the basic financial statements.

Custodial funds are used to account for resources where the City acts as trustee or agent and is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City has two funds that are reported as Custodial funds. The accounting used for these funds is similar in nature to proprietary fund reporting since it includes both short-term and long-term information and employs the full accrual method. Reports include a statement of net position and a statement of changes in plan net position. These funds are excluded from the government-wide financial statements because these assets cannot be used to finance City operations.

Notes to the financial statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents comparative budget statements for major governmental funds. This report contains certain required supplementary information concerning the City's Pension and Other Post Employment Benefit funds. Information is also provided for the City's participation in state retirement plans.

Government-wide overall financial analysis

Net position

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Bellingham, assets and deferred outflows of resources exceeded

liabilities by \$873.2 million, at December 31, 2019. This was an increase of \$60 million, or 7.4%, over December 31, 2018.

Net position (in thousands)						
	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current	\$ 192,991	\$ 146,951	\$ 90,688	\$ 81,639	\$ 283,679	\$ 228,590
Noncurrent	69,587	75,260	17,372	13,302	86,959	88,562
Capital assets (net of depr)	411,289	400,349	323,210	324,889	734,499	725,238
Total assets	<u>673,867</u>	<u>622,560</u>	<u>431,270</u>	<u>419,830</u>	<u>1,105,137</u>	<u>1,042,390</u>
Deferred Outflows of Resources	<u>7,915</u>	<u>7,704</u>	<u>1,097</u>	<u>1,087</u>	<u>9,013</u>	<u>8,791</u>
Liabilities						
Current	11,360	8,711	5,106	5,390	16,466	14,101
Current portion long-term	8,386	8,040	5,431	4,866	13,817	12,906
Long-term noncurrent	97,819	100,851	92,821	91,886	190,641	192,737
Total liabilities	<u>117,565</u>	<u>117,602</u>	<u>103,358</u>	<u>102,142</u>	<u>220,923</u>	<u>219,744</u>
Deferred Inflows of Resources	<u>18,424</u>	<u>16,829</u>	<u>1,581</u>	<u>1,435</u>	<u>20,005</u>	<u>18,264</u>
Net position						
Net investment in capital assets	406,477	378,166	247,261	247,653	653,738	625,819
Restricted	149,622	128,102	16,079	12,590	165,701	140,692
Unrestricted	<u>(10,306)</u>	<u>(10,435)</u>	<u>64,088</u>	<u>57,097</u>	<u>53,782</u>	<u>46,662</u>
Total net position	<u>\$ 545,793</u>	<u>\$ 495,833</u>	<u>\$ 327,428</u>	<u>\$ 317,340</u>	<u>\$ 873,221</u>	<u>\$ 813,173</u>

By far, the largest portion of the City's net position, 75%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. During 2019, the net investment in capital assets increased by \$27.9 million.

An additional portion of the City's net position, 19%, represents resources that are subject to external restrictions on how they may be used. These restrictions include bond covenants, construction requirements, levy agreements, endowment terms, settlement agreements and the Revised Code of Washington. In 2019, the restricted resources total \$165.7 million. The remaining balance of \$53.7 million is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. This is an increase of \$7.1 million from 2018.

At the end of 2019, the City of Bellingham is able to report positive balances in all reported categories of net position for the government as a whole. The same situation held true for the 2018.

Changes in net position

In 2019, government-wide net position increased by \$60 million, of which governmental activities increased by \$49.9 million. This increase is due in part to prior period adjustments of \$13.8 million. In 2019, the City implemented GASB 73, which changed the reporting of the Pension and OPEB funds, which had previously been reported as trust fund fiduciary activities, to now be reported within the General fund as non-trust fund governmental activities. This change in accounting principle resulted in an increase in governmental net position of \$9.2 million. An additional adjustment of \$4.6 million was made to recognize business and occupation tax revenue in 2018 that was received in January and February 2019, for

December 2018 business activity (see Note 22). Before the prior period adjustments, the increase in net position of governmental activities was \$36.2 million. Governmental activities total revenues increased by \$588 thousand from 2018. Governmental activities program revenues decreased by \$8.4 million, while general revenues increased by \$9 million.

The business-type activities net position for 2019 increased by \$10.1 million over 2018. This increase is primarily due to revenues exceeding expenses. Total business-type activities revenues increased \$1.1 million, or 1.3% from 2018. In 2019 business-type general revenues increased \$1.6 million, while total program revenues decreased \$488 thousand. This decrease in program revenues was due to a decrease in both capital grant and contributions of \$2.2 million and operating grants and contribution of \$1.1 million from 2018.

Changes in net position *(in thousands)*

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Charges for services	\$ 14,792	\$ 14,492	\$ 78,697	\$ 75,871	\$ 93,489	\$ 90,363
Operating grants and contributions	11,533	7,730	944	2,051	12,477	9,781
Capital grants and contributions	6,193	18,729	2,301	4,508	8,494	23,237
General revenues:						
Property tax	27,072	23,318	-	-	27,072	23,318
Sales and use tax	37,919	36,294	-	-	37,919	36,294
Business tax	34,513	33,922	1,582	1,442	36,095	35,364
Real estate excise tax	4,064	4,987	-	-	4,064	4,987
Other taxes	1,126	1,127	868	818	1,994	1,945
Investment Income	5,014	2,084	2,826	1,193	7,840	3,277
Miscellaneous revenue	<u>2,852</u>	<u>2,079</u>	<u>211</u>	<u>178</u>	<u>3,063</u>	<u>2,257</u>
Total revenues	145,078	144,762	87,429	86,061	232,507	230,823
Program expenses:						
General government	10,090	12,069	-	-	10,090	12,069
Public safety	52,960	44,921	-	-	52,960	44,921
Transportation	19,315	16,418	-	-	19,315	16,418
Natural and economic environment	8,890	7,190	-	-	8,890	7,190
Social services	299	188	-	-	299	188
Culture and recreation	18,775	16,919	-	-	18,775	16,919
Interest on long-term debt	746	800	-	-	746	800
Water	-	-	22,916	21,631	22,916	21,631
Wastewater	-	-	21,022	21,775	21,022	21,775
Surface & stormwater	-	-	9,782	8,429	9,782	8,429
Solid waste	-	-	5,304	1,647	5,304	1,647
Medicine	-	-	8,369	7,280	8,369	7,280
Other business type activities	-	-	<u>7,878</u>	<u>7,170</u>	<u>7,878</u>	<u>7,170</u>
Total expenses	111,075	98,505	75,271	67,932	186,346	166,437
Excess (deficiency) before transfers	34,003	46,257	12,158	18,129	46,161	64,386
Transfers	<u>2,151</u>	<u>1,880</u>	<u>(2,151)</u>	<u>(1,880)</u>	<u>-</u>	<u>-</u>
Change in net position	36,154	48,137	10,007	16,249	46,161	64,386
Net position - beginning	495,833	478,215	317,339	300,955	813,172	779,170
Prior Period Adjustment	13,806	(30,519)	82	136	13,888	(30,383)
Net position - ending	<u>\$ 545,793</u>	<u>\$ 495,833</u>	<u>\$ 327,428</u>	<u>\$ 317,340</u>	<u>\$ 873,221</u>	<u>\$ 813,173</u>

Revenues and expenses – government-wide

In 2019, overall government-wide revenues increased \$1.7 million, from \$230.8 million in 2018 to \$232.5 million. There were several elements that led to this increase in revenues, but was primarily due to a \$10.6 million increase in general revenues. The largest increases were in investment interest and property tax. Investment interest increased \$4.6 million, as interest rates continued to increase. Property tax increased \$3.8 million due to new construction. Increases were also seen in sales and use tax of \$1.6 million and business tax of \$731 thousand due to strong demand for services and products within the local economy. Offsetting the increase in general revenues for 2019, total program revenues decreased \$8.9 million from 2018. This was due to a decrease of \$14.7 million, or 63.4%, in capital grants and contributions.

Overall government-wide expenses increased by \$19.9 million, rising from \$166.4 million in 2018 to \$186.3 million in 2019. \$12.6 million of this increase was in the governmental activities and \$7.3 million was in the business-type activities.

Governmental activities

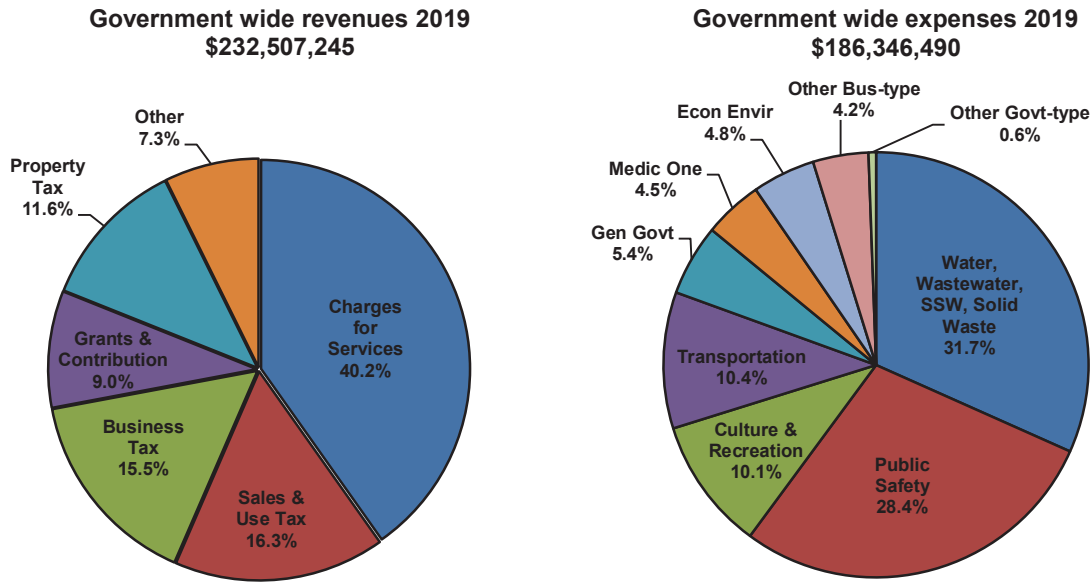
Governmental activities total program revenue decreased by \$8.4 million, from \$40.9 million in 2018 to \$32.5 million in 2019. While operating grants and contributions increased \$3.8 million, it was offset by a \$12.5 million decrease in capital grants and contributions. The increase in operating grants and contributions was mainly from a \$3.4 million increase in public safety. Capital grants and contributions decreased due to transportation capital grants reducing from \$18.7 million in 2018 to \$6.2 million in 2019, a difference of \$12.5 million. Charges for services had a small increase of \$300 thousand over 2018.

In 2019, expenses for governmental activities experienced an overall increase of 12.8%. Total governmental activity spending was \$111.1 million, a \$12.6 million increase over 2018 spending of \$98.5 million. 48% of this increase is attributed to public safety expenses increasing \$8 million. Expenses also increased for transportation by \$2.9 million, culture and recreation by \$1.9 million and natural and economic environment by \$1.7 million. These increases were offset by a decrease in general government expenses of \$2 million.

Business-type activities

Business-type activities program revenue decreased by \$488 thousand, from \$82.4 million in 2018 to \$81.9 million in 2019. While charges for services increased \$2.8 million, operating grants and contributions decreased \$1.1 million, and capital grants and contributions decreased \$2.2 million. Surface and Stormwater, Water, and Wastewater funds accounted for \$2.3 million of the increase in charges for services. This increase was due in part to utility rate increases. There were also increases in charges for services for Medic One of \$365 thousand and Development Services of \$238 thousand.

Expenses for business-type activities increased \$7.3 million from the prior year. The largest increase was Solid Waste fund expenses at \$3.7 million, due to an increase in pollution remediation liability. Smaller increases were seen in Surface and Stormwater of \$1.4 million, Water of \$1.3 million, Medic One of \$1.1 million, and Parking of \$1 million. Cemetery fund had a small increase of \$51 thousand. These increases were offset by a decrease in Wastewater fund expenses of \$753 thousand, Development Services of \$290, and Golf fund of \$90 thousand.



Fund level financial analysis

Governmental funds

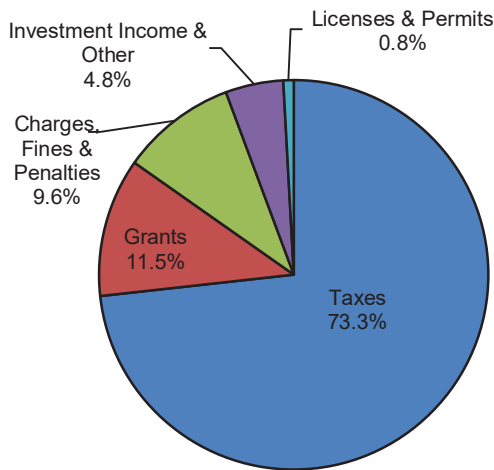
Revenues

The City of Bellingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In 2011, the City began reporting the former special revenue street fund in the General fund. In 2012, after further evaluation of all special revenue funds, the City reported additional activities in the General fund that were previously reported in the special revenue funds given the guidance of GASB 54. Currently, the City has nine special revenue funds reported within the General fund. Two of these funds, pension and OPEB funds, had previously been reported under GASB 68 as *trust fund* fiduciary activities. The pension and OPEB funds are now reported within the General fund under GASB 73 as *non-trust fund* governmental activities. The General fund is the City’s only governmental major fund.

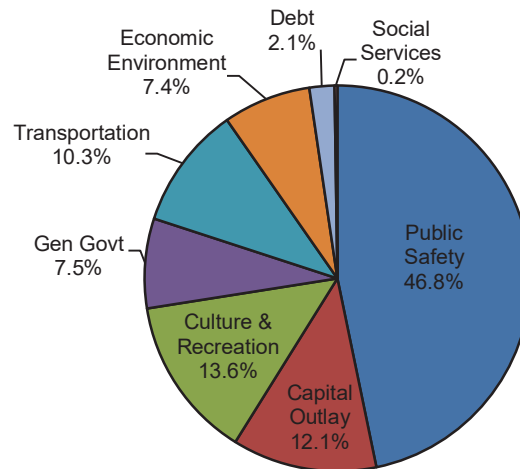
Fund balance in governmental funds increased \$38.6 million in 2019. Of this amount, \$15.3 million is related to excess revenues over expenditures, and \$26.8 million is a prior period adjustment, resulting in a final ending fund balance of \$199.5 million. Overall governmental revenues increased \$1.2 million, from \$140.7 million in 2018 to \$141.8 million 2019. While taxes increased \$5 million and miscellaneous revenues increased \$2.9 million, they were offset by a decrease in intergovernmental revenue of \$6.8 million. This decrease intergovernmental revenue was due to reduced revenues from capital grants.

Tax revenue is the City’s most significant source of governmental revenue, representing 73.3% of total governmental revenue and 78% of General fund revenue. Tax revenue supports services such as streets, fire, police, and parks which are basic to the City’s mission, although they do not generate substantial revenue. The major tax categories are retail sales and use, business and occupation, property, and utility tax. Overall, tax collections increased 5.1% from 2018 to 2019. Within the legally adopted original General fund, property tax had the largest increase, \$2.8 million or 13.8%. Increases were also seen in sales and use tax showed an increase of \$1.2 million, or 4.7%, and business tax increased \$591 thousand, or 1.7%. This increase in tax revenue is due to increased business activity within the strong local economy.

Governmental fund revenues 2019
\$141,832,513



Governmental fund expenditures 2019
\$126,532,529



Expenditures

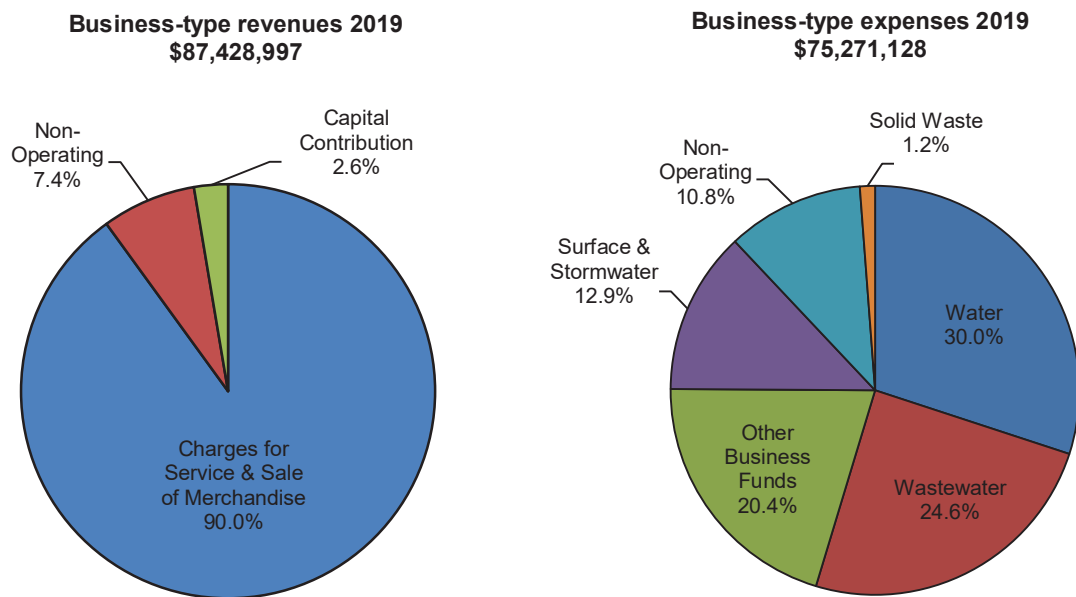
Public safety consisting of fire, police, and municipal court accounts for 46.8% of governmental expenditures. Culture and recreation services, representing 13.6%, includes parks and recreation programs, the museum, and the library. Capital outlay accounts for 12.1%. Transportation includes both the maintenance and construction of transportation infrastructure and accounts for 10.3% of governmental expenditures. General government type expenditures comprising 7.5%, are typically overhead in nature, providing management, accounting, legal, personnel and technical services required by operating programs. Additionally, natural and economic environment is 7.4%, debt expenses is 2.1%, and social services represent .2% of total governmental expenditures.

Business-type funds

Net position increased by \$10.1 million, for a total of \$327.4 million in business-type funds. Operating revenues increased by \$2.8 million, or 3.7%, from \$75.9 million to \$78.7 million. Operating expenses increased by \$3.7 million, or 5.9%, from \$63.4 million to \$67.1 million.

The financial position of the City’s business-type funds is largely influenced by the Water and Wastewater funds. Together they comprise 69.2% of operating revenues, 61.3% of expenses, and 83.4% of net position of each respective total for the enterprise funds.

The Cemetery is a business-type activity that requires support from the General fund. In 2019, the Cemetery received \$44 thousand cash operating subsidies. Medic One receives a portion of the voted EMS local sales tax from Whatcom County (see Note 15).



Financial analysis of City funds

At the end of 2019, the City has 22 governmental funds. The General fund is the primary governmental fund and is the City's only major governmental fund.

The General fund ending fund balance increased \$34.5 million, from \$79.7 million in 2018 to \$114.2 million in 2019. This increase is due in part to excess revenues over expenditures of \$7.7 million. The primary reason for this increase is prior period adjustments of \$26.8 million. In 2019, the City implemented GASB 73, which changed the reporting of the Pension and OPEB funds, which had previously been reported as trust fund fiduciary activities, to now be reported within the General fund as non-trust fund governmental activities. This change in accounting principle resulted in an increase in General fund net position of \$22.2 million. An additional adjustment of \$4.6 million was made to recognize business and occupation tax revenue in 2018 that was received in January and February 2019, for December 2018 business activity. See Note 22.

Fund balance for the non-major governmental funds increased by \$4.1 million in 2019, due in large part to excess revenues over expenditures of \$2.9 million and net transfers-in of \$1.2 million. Overall revenues increased \$1.1 million while expenses decreased \$390 thousand in 2019, as compared to 2018.

The City has nine business-type funds. The four major business-type funds are Water, Wastewater, Surface and Stormwater and Solid Waste. In 2019, the major funds all increased their net positions from 2018, except for Solid Waste which had a decrease of \$4.2 million. The increases were \$7 million in Water, \$6.6 million in Wastewater, and \$955 thousand in Surface and Stormwater. Operating revenues increased \$2.8 million, due in part to rate increases. Solid Waste has a negative ending net position of \$11.7 million (see Note 2B). In 2019, the pollution remediation liability was increased by \$4.3 million in the Solid Waste fund, which added to the negative ending net position. The City has five non-major enterprise funds: Cemetery, Golf, Parking Services, Medic One and Development Services. Overall net position for the five funds decreased by \$326 thousand in 2019, compared to 2018. Cemetery and Development Services both increased net position, while Golf, Parking, and Medic One experienced a decrease.

General fund budgetary highlights

The budget is legally adopted at the fund level, including the General fund budget. GASB 34 requires the legally adopted budget of the General fund to be presented as required supplementary information (RSI). Accordingly, the General fund in its originally adopted form along with a reconciliation of the General fund presented in the GAAP basis basic financial statements is presented as RSI. The General fund presented in the basic financial statements in accordance with GAAP includes nine other funds with legally adopted budgets that do not meet the requirements of a special revenue fund per GASB 54 and have accordingly been combined with the General fund. To see comparisons of the original General fund and the General fund combined per GASB 54, see the reconciliation schedule in the RSI section of the financial statements. The City of Bellingham budgets on a biennial basis. The 2019-2020 adopted General fund budget for expenditures (pre-GASB 54 rollup) is \$167.7 million, the final budget after all amendments is \$177.1 million. Amendments to the budget are made for the following purposes:

- Supplemental appropriations approved after the beginning of the year to reflect actual beginning account balances and to correct the estimated amounts in the budget adopted in December 2018.
- Increases and decreases in appropriations to recognize actual program costs.
- New appropriations to acknowledge unanticipated revenues and corresponding expenditures.

2019 was the first year of a two-year budget cycle. 2019 actual revenues are 48.1% of the final two-year budget amount. Property tax, sales and use tax, business tax, other taxes, and licenses and permits actual revenues finished the year at 49.3-51.5% of the final two-year budget. Intergovernmental revenue came in above budget at 112%. Investment income and miscellaneous revenue also came in above budget at 59.8%, and 64.8%. These revenues were offset by charges for services which was below estimated budget at 20.1%. Business taxes included both business and occupation taxes (B&O) taxes as well as utility taxes. Both B&O taxes and utility taxes have been strong in 2019 due to increased business activity from the stronger local economy as previously stated above.

Actual expenditures for 2019 are 44.6% of the final two-year budgeted amount. This is mainly due to general government expenditures coming in at only 30.7% of budget.

The General fund actual ending fund balance of \$40.1 million is above the projected final ending balance of \$22.4 million, a \$17.8 million difference. The General fund ending balance is above budget due to 2019 being the first year of a two-year budget.

Debt administration and capital assets

Long-term debt

At December 31, 2019, the City's total outstanding debt was \$107.6 million, a decrease of \$4 million from 2018.

Outstanding debt (in thousands)

	Governmental activities		Business-type activities		Total		Increase (Decrease)
	2019	2018	2019	2018	2019	2018	2019-2018
General obligation bonds	\$ 23,311	\$ 24,825	\$ 3,623	\$ 4,148	\$ 26,934	\$ 28,973	\$ (2,039)
Revenue bonds	-	-	61,537	63,054	61,537	63,054	(1,517)
Government loans	3,591	4,166	15,444	15,346	19,035	19,512	(477)
Notes payable	48	63	-	-	48	63	(15)
Total	<u>\$ 26,950</u>	<u>\$ 29,054</u>	<u>\$ 80,604</u>	<u>\$ 82,548</u>	<u>\$ 107,554</u>	<u>\$ 111,602</u>	<u>\$ (4,048)</u>

The City's bond rating as assigned by Standard & Poor's Ratings Services (S&P) is 'AA+' and the rating is a long-term rating to the City's series 2016 limited-tax general obligation (GO) refunding bonds.

State law limits the amount of general obligation debt the City can issue to a percentage of the total assessed value of the taxable property. The limits are 1.5% non-voted, 2.5% voted and non-voted, and 7.5% voted if excess over 2.5% is for utilities, parks, or open space development.

More detailed information about long-term debt is presented in Note 10.

Capital assets

At December 31, 2019, the City has invested \$734.5 million in a wide range of capital assets throughout governmental and business-type activities, an increase of \$9.3 million from the previous year. This was primarily due to an increase in Construction in Progress of \$10.9 million. This increase is due to the following projects:

- Cordata Community Park totaled \$4.7 million
- Non-Motorized Improvements totaled \$2 million
- Cordata/Stuart Roundabout totaled \$1.9 million
- Orchard Street Extension totaled \$1.4 million

Capital assets (net of depreciation, in thousands)

	Governmental activities		Business-type activities		Total		Increase (Decrease)
	2019	2018	2019	2018	2019	2018	2019-2018
Capital assets, non depreciable:							
Land	\$ 85,489	\$ 85,489	\$ 48,440	\$ 47,047	\$ 133,929	\$ 132,536	\$ 1,393
Improvements/infrastructure	17,615	17,615	-	-	17,615	17,615	-
Construction in progress	15,706	6,535	3,129	1,355	18,835	7,890	10,945
Intangible right of ways	58,992	58,987	206	206	59,198	59,193	5
Capital assets, net of depreciation:							
Buildings	24,175	25,079	93,120	95,916	117,295	120,995	(3,700)
Improvements/infrastructure	190,889	189,635	176,397	178,129	367,286	367,764	(478)
Machinery and equipment	17,189	15,476	1,918	2,236	19,107	17,712	1,395
Intangible software	1,234	1,533	-	-	1,234	1,533	(299)
Total	\$ 411,289	\$ 400,349	\$ 323,210	\$ 324,889	\$ 734,499	\$ 725,238	\$ 9,261

More detailed information about capital assets is presented in Note 6.

In addition to the capital assets shown above, the City also has made commitments to fund several water, wastewater, surface and stormwater, parks, and street projects. Of the current capital commitments, \$17.5 million has been spent to date with \$7.7 million remaining.

Economic factors and Next Year's Budget

The City of Bellingham budgets on a biennial basis. 2020 represents the second year of the 2019-2020 Biennial Budget. The budget was initially developed in 2018 and in late 2019 was modified through a robust mid-biennial process that included an updated revenue forecast. The two-year budget assumes revenues totaling \$597 million and expenses of \$677 million. The expenses in excess of projected revenues are primarily for capital projects and other one-time expenses.

In 2019, the City of Bellingham saw the same sustained economic growth that it has enjoyed over much of the past eight years, including record permitting and construction activity, a major driver of General fund tax revenues. During this time period, City leaders have demonstrated fiscal restraint and provided the City with strong base of reserves to weather potential financial crisis.

The 2020 forecast accounted for continued economic growth at a slightly slowed rate. Revenues from economically variable tax categories such as sales tax and business and occupation were adjusted up to account for the robust receipts of 2019, but growth rates were projected to slow and regress closer to historical averages. Fee-based utility revenues were projected to maintain the previous projections based on pre-determined fee increases tied to the consumer price index.

In response to the COVID-19 crisis, the City anticipates revenue to fall significantly short of budgeted amounts in 2020. In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the virus. Steps to slow the spread have included closing schools, colleges, and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. The full extent of the financial impact to the City will depend on the length of time these measures will be in place, which is unknown at this time. To offset this shortfall, budgets have been reduced throughout the General fund, and further steps will continue to be evaluated as more information is available.

Contacting the City's financial management

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

CITY OF BELLINGHAM
Government-Wide
Statement of Net Position
December 31, 2019

	Total Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total Primary Government	Public Facilities District
ASSETS				
Cash and cash equivalents	\$ 36,237,758	\$ 17,631,121	\$ 53,868,879	\$ 248,395
Investments	142,566,581	69,145,260	211,711,841	974,151
Receivables, net	14,186,502	3,911,767	18,098,269	306,411
<i>Restricted assets:</i>				
Cash and cash equivalents	-	2,995,144	2,995,144	191,780
Investments	-	11,746,276	11,746,276	752,119
Due from other governments	1,600,996	1,591,355	3,192,351	435
Due from component units	14,747,606	-	14,747,606	-
Inventory	543,366	47,957	591,323	-
Prepaid items	915,890	-	915,890	-
Special assessments receivable	-	3,958	3,958	-
Notes and contracts receivable	26,643,531	-	26,643,531	-
<i>Capital assets, non depreciable:</i>				
Land	85,488,948	48,440,305	133,929,253	1,329,860
Improvements	17,614,900	-	17,614,900	-
Construction in progress	15,705,998	3,129,398	18,835,396	-
Intangible assets - right of ways	58,991,954	206,111	59,198,065	-
<i>Capital assets, net of depreciation:</i>				
Buildings	24,174,894	93,119,512	117,294,406	12,884,152
Improvements	190,888,750	176,397,254	367,286,004	5,911,394
Machinery and equipment	17,189,128	1,917,427	19,106,555	-
Intangibles - software	1,234,559	-	1,234,559	-
Net pension asset	25,135,601	986,927	26,122,528	-
Total assets	673,866,962	431,269,772	1,105,136,734	22,598,697
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refunding	1,163,211	395,224	1,558,435	537,738
Related to pensions	6,751,972	702,116	7,454,088	-
Total deferred outflows of resources	7,915,183	1,097,340	9,012,523	537,738
LIABILITIES				
Accounts payable	5,563,179	4,027,572	9,590,751	41,563
Accrued wages and benefits	3,720,291	725,414	4,445,705	-
Internal balances	(158,264)	158,264	-	-
Due to other governments	88,358	-	88,358	-
Other current liabilities	1,009,265	195,017	1,204,282	-
Unearned revenue	1,137,111	-	1,137,111	-
<i>Noncurrent liabilities:</i>				
Due within one year	8,385,870	5,430,801	13,816,671	1,363,885
Due in more than one year	97,819,175	92,821,333	190,640,508	13,383,721
Total liabilities	117,564,985	103,358,401	220,923,386	14,789,169

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

CITY OF BELLINGHAM
Government-Wide
Statement of Net Position
December 31, 2019

	Total Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total Primary Government	Public Facilities District
DEFERRED INFLOWS OF RESOURCES				
Related to OPEB	2,897,743	-	2,897,743	-
Related to pensions	15,526,609	1,580,793	17,107,402	-
Total deferred inflows of resources	18,424,352	1,580,793	20,005,145	-
NET POSITION				
Net investment in capital assets	406,476,617	247,261,373	653,737,990	5,915,538
Restricted:				
<i>Expendable</i>				
Affordable housing	34,599,941	-	34,599,941	-
Capital improvements	17,777,871	8,345,251	26,123,122	-
Cemetery services	-	336,037	336,037	-
Debt service	17,408,511	5,930,483	23,338,994	943,899
Environmental remediation	2,505,384	-	2,505,384	-
Government access TV	918,830	-	918,830	-
Library projects	112,542	-	112,542	-
Park improvements	19,499,927	-	19,499,927	-
Pension asset - LEOFF	25,135,601	986,927	26,122,528	-
Public safety dispatch	1,780,739	-	1,780,739	-
Public safety special purpose	353,540	-	353,540	-
Rental property inspections	-	480,234	480,234	-
Tourism	1,545,093	-	1,545,093	-
Transportation improvements	10,683,868	-	10,683,868	-
Waterfront redevelopment	7,360,483	-	7,360,483	-
<i>Nonexpendable</i>				
Permanent funds principal	9,939,391	-	9,939,391	-
Unrestricted	(10,305,530)	64,087,613	53,782,083	1,487,829
Total net position	\$ 545,792,808	\$ 327,427,918	\$ 873,220,726	\$ 8,347,266

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

CITY OF BELLINGHAM
Government-Wide
Statement of Activities
For the Year Ended December 31, 2019

Function/Program Activities	Program Revenues					Net (Expense) Revenue and Changes in Net Position				Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Government-Wide			Public Facilities District		
						Business-Type Activities	Total				
Governmental Activities											
General government	\$ 10,089,864	\$ 2,143,986	\$ 2,753,614	\$ 20,000	\$ (5,172,264)	\$ -	\$ (5,172,264)	\$ -			
Public safety	52,959,963	7,393,728	6,684,787	-	(38,881,448)	-	(38,881,448)	-			
Transportation	19,314,775	1,696,657	-	6,159,183	(11,458,935)	-	(11,458,935)	-			
Natural and economic environment	8,890,146	36,295	1,548,309	-	(7,305,542)	-	(7,305,542)	-			
Social services	299,812	-	-	-	(299,812)	-	(299,812)	-			
Culture and recreation	18,774,899	3,521,355	545,957	13,747	(14,693,840)	-	(14,693,840)	-			
Interest on long-term debt	745,903	-	-	-	(745,903)	-	(745,903)	-			
Total governmental activities	111,075,362	14,792,021	11,532,667	6,192,930	(78,557,744)	-	(78,557,744)	-			
Business-Type Activities											
Water	22,915,547	28,840,430	234,553	871,143	-	7,030,579	7,030,579	-			
Wastewater	21,022,170	25,649,680	4,417	470,501	-	5,102,428	5,102,428	-			
Surface and stormwater	9,782,259	9,870,144	236,240	959,361	-	1,283,486	1,283,486	-			
Solid waste	5,303,940	-	577	-	-	(5,303,363)	(5,303,363)	-			
Cemetery	339,613	286,276	-	-	-	(53,337)	(53,337)	-			
Golf course	1,110,470	999,203	-	-	-	(111,267)	(111,267)	-			
Parking	3,395,219	2,173,553	-	-	-	(1,221,666)	(1,221,666)	-			
Medic one	8,368,737	6,721,225	460,644	-	-	(1,186,868)	(1,186,868)	-			
Development services	3,033,173	4,156,191	7,885	-	-	1,130,903	1,130,903	-			
Total business-type activities	75,271,128	78,696,702	944,316	2,301,005	-	6,670,895	6,670,895	-			
Total primary government	\$ 186,346,490	\$ 93,488,723	\$ 12,476,983	\$ 8,493,935	\$ (78,557,744)	\$ 6,670,895	\$ (71,886,849)	\$ -			
Component Unit											
Public Facilities District	\$ 1,266,812	\$ 16,470	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,250,342)
General revenues											
Taxes:											
Property					27,072,421		27,072,421				
Sales and use					37,918,673		37,918,673		1,677,130		
Business					34,513,080	1,582,043	36,095,123				
Real estate excise					4,063,836		4,063,836				
Other					1,125,714	867,972	1,993,686				
Investment income					5,014,538	2,826,410	7,840,948		74,440		
Miscellaneous revenue					2,852,368	210,549	3,062,917		2,828		
Transfers					2,151,174	(2,151,174)	-				
Total general revenues and transfers					114,711,804	3,335,800	118,047,604		1,754,398		
Change in net position					36,154,060	10,006,695	46,160,755		504,056		
Net position - beginning					495,833,188	317,339,501	813,172,689		7,843,210		
Prior period adjustment					13,805,560	81,722	13,887,282		-		
Net position - ending					\$ 545,792,808	\$ 327,427,918	\$ 873,220,726		\$ 8,347,266		

CITY OF BELLINGHAM
Balance Sheet
Governmental Funds
December 31, 2019

	General	Nonmajor Governmental Fund Totals	Governmental Funds Total
ASSETS			
Cash and cash equivalents	\$ 22,141,188	\$ 8,682,463	\$ 30,823,651
Investments	87,730,572	33,603,107	121,333,679
Receivables, net	11,971,812	1,457,104	13,428,916
Due from other funds	121,922	67,684	189,606
Due from other governments	731,840	824,910	1,556,750
Due from component units	-	14,747,606	14,747,606
Interfund loans receivable	-	1,255,072	1,255,072
Prepaid items	51,720	-	51,720
Notes and contracts receivable	326,843	26,316,688	26,643,531
Total assets	123,075,897	86,954,634	210,030,531
LIABILITIES			
Accounts payable	2,557,909	1,290,395	3,848,304
Accrued wages and benefits	2,854,006	274,388	3,128,394
Due to other funds	-	31,342	31,342
Interfund loans payable	1,255,072	-	1,255,072
Due to other governments	4,293	-	4,293
Other liabilities	222,815	431	223,246
Unearned revenue	802,111	-	802,111
Total liabilities	7,696,206	1,596,556	9,292,762
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - fines	865,766	-	865,766
Unavailable revenue - aid fees	329,193	-	329,193
Total deferred inflows of resources	1,194,959	-	1,194,959

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

CITY OF BELLINGHAM
Balance Sheet
Governmental Funds
December 31, 2019

	General	Nonmajor Governmental Fund Totals	Governmental Funds Total
FUND BALANCES			
<i>Nonspendable:</i>			
Permanent funds principal	-	9,939,391	9,939,391
Prepaid items	51,720	-	51,720
<i>Restricted:</i>			
Affordable housing	326,843	34,273,098	34,599,941
Capital improvements	17,777,871	-	17,777,871
Debt service	-	17,408,511	17,408,511
Environmental remediation	-	2,505,384	2,505,384
Firefighter's OPEB	7,722,797	-	7,722,797
Firefighter's pension	7,458,194	-	7,458,194
Government access TV	-	918,830	918,830
Library projects	-	112,542	112,542
Park maintenance and improvements	19,499,927	-	19,499,927
Public safety dispatch	-	1,780,739	1,780,739
Public safety special purpose	-	353,540	353,540
Tourism	-	1,545,093	1,545,093
Transportation improvements	1,523,401	9,160,467	10,683,868
Waterfront redevelopment	-	7,360,483	7,360,483
<i>Committed:</i>			
Legal environmental remediation	1,101,404	-	1,101,404
Police officer's OPEB	4,812,476	-	4,812,476
Police officer's pension	4,696,949	-	4,696,949
<i>Assigned:</i>			
Public safety donations	4,342	-	4,342
Streets	10,505,369	-	10,505,369
Unassigned	38,703,439	-	38,703,439
Total fund balances	114,184,732	85,358,078	199,542,810
Total liabilities, deferred inflows of resources and fund balances	\$ 123,075,897	\$ 86,954,634	\$ 210,030,531

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

CITY OF BELLINGHAM
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2019

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

Total fund balance of governmental funds		\$ 199,542,810
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		388,979,746
The following long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds:		
Accrued investment interest	493,666	
Deferred loss on bond refunding	1,163,211	
Pension asset	25,135,601	
Deferred pension outflows	6,344,313	
Unearned revenue	1,194,959	
		34,331,750
Internal service funds are used by management to charge the cost of certain internal functions, goods, and services to other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position		37,509,843
The following long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued interest payable on long-term debt	(56,745)	
Compensated absences	(6,127,206)	
OPEB liability	(28,366,155)	
Pension liability	(16,555,902)	
Deferred OPEB inflows	(2,897,743)	
Deferred pension inflows	(14,666,616)	
Pollution remediation costs	(25,050,000)	
GO bonds, loans, and notes payable	(19,199,979)	
Premiums on long-term debt	(1,650,995)	
		(114,571,341)
Net position of governmental activities		\$ 545,792,808

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

CITY OF BELLINGHAM
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019

	General	Nonmajor Governmental Funds	Governmental Funds Total
REVENUES			
Taxes:			
Property	\$ 23,011,772	\$ 4,060,649	\$ 27,072,421
Sales and use	28,051,318	9,076,838	37,128,156
Business	34,513,080	-	34,513,080
Real estate excise	4,063,836	-	4,063,836
Other	1,125,714	-	1,125,714
Licenses and permits	908,767	288,237	1,197,004
Intergovernmental revenue	11,158,033	5,169,416	16,327,449
Charges for services	8,682,494	4,255,622	12,938,116
Fines and penalties	644,224	-	644,224
Investment income	3,055,447	1,078,341	4,133,788
Miscellaneous revenues	952,689	1,736,036	2,688,725
Total revenues	116,167,374	25,665,139	141,832,513
EXPENDITURES			
Current:			
General government	9,527,154	-	9,527,154
Public safety	51,927,335	7,234,128	59,161,463
Transportation	10,023,257	3,006,319	13,029,576
Natural and economic environment	4,426,429	4,876,864	9,303,293
Social services	299,812	-	299,812
Cultural and recreation	17,197,200	53,149	17,250,349
Debt service:			
Principal	-	1,897,216	1,897,216
Interest and related charges	31,408	718,992	750,400
Capital outlay	10,384,544	4,928,722	15,313,266
Total expenditures	103,817,139	22,715,390	126,532,529
Revenues over (under) expenditures	12,350,235	2,949,749	15,299,984
OTHER FINANCING SOURCES (USES)			
Transfers in	436,144	1,290,304	1,726,448
Transfers out	(5,120,023)	(135,571)	(5,255,594)
Total other financing sources and (uses)	(4,683,879)	1,154,733	(3,529,146)
Net change in fund balances	7,666,356	4,104,482	11,770,838
Fund balances - beginning	79,722,396	81,253,596	160,975,992
Prior period adjustment	26,795,980	-	26,795,980
Fund balances - ending	\$ 114,184,732	\$ 85,358,078	\$ 199,542,810

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

CITY OF BELLINGHAM
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2019

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

Net change in fund balances - total governmental funds \$ 11,770,838

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Purchases	15,313,266	
Depreciation	(10,609,132)	
Contributions/donations	1,181,583	
Abandonments	(436,851)	
Retirements	(154,422)	
Depreciation on retirements	154,422	
		5,448,866

The following revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:

Accrued investment interest	166,920	
Deferred loss on bond refunding	(136,969)	
Unearned revenue	7,672	
		37,623

Internal service funds are used by management to charge the cost of certain internal functions, goods, and services to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. 8,109,845

The following expenses in the statement of activities that do not use current financial resources are not reported as expenditures in governmental funds.

Accrued interest payable on long-term debt	4,497	
Compensated absences	(282,897)	
OPEB expense	4,513,980	
Pension expense	4,448,666	
GO bonds, loans, and notes payable	1,897,216	
Premiums on long-term debt	205,426	
		10,786,888

Change in net position of governmental activities \$ 36,154,060

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

CITY OF BELLINGHAM
Statement of Net Position
Proprietary Funds
December 31, 2019

	Business-Type Activities - Enterprise Funds					Governmental Activities	
	Water	Wastewater	Surface and Stormwater	Solid Waste	Nonmajor Enterprise Fund Totals	Enterprise Fund Totals	Internal Service Funds
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 5,130,624	\$ 7,694,124	\$ 1,496,574	\$ 1,161,546	\$ 2,148,253	\$ 17,631,121	\$ 5,412,182
Investments	20,121,146	30,174,609	5,869,224	4,555,321	8,424,960	69,145,260	21,225,350
Receivables, net	1,271,930	1,537,520	482,921	110,247	509,149	3,911,767	263,921
Due from other funds	173,000	-	-	-	-	173,000	-
Due from other governments	21	112,611	324,404	-	1,154,319	1,591,355	44,246
Inventory	-	-	-	-	47,957	47,957	543,366
Prepaid items	-	-	-	-	-	-	864,170
Restricted cash and cash equivalents	70,851	280,411	-	10,764	-	362,026	1,925
Restricted investments	277,860	1,099,705	-	42,213	-	1,419,778	7,552
Total current assets	27,045,432	40,898,980	8,173,123	5,880,091	12,284,638	94,282,264	28,362,712
Noncurrent assets:							
Restricted cash and cash equivalents	474,113	2,075,152	-	-	83,853	2,633,118	-
Restricted investments	1,859,369	8,138,275	-	-	328,854	10,326,498	-
Special assessments receivable	-	3,958	-	-	-	3,958	-
Capital assets, nondepreciable:							
Land	38,135,562	3,925,297	4,857,811	-	1,521,635	48,440,305	40,102
Construction in progress	158,261	1,397,973	1,573,164	-	-	3,129,398	1,305,820
Intangibles - right of ways	-	118,769	87,342	-	-	206,111	-
Capital assets, net of depreciation:							
Buildings	5,582,139	85,005,977	-	-	2,531,396	93,119,512	995,766
Improvements	83,567,400	51,010,818	41,028,535	261,228	529,273	176,397,254	4,959,315
Machinery and equipment	348,353	959,127	66,011	81,350	462,586	1,917,427	14,842,135
Intangibles - software	-	-	-	-	-	-	166,247
Net pension asset	-	-	-	-	986,927	986,927	-
Total noncurrent assets	130,125,197	152,635,346	47,612,863	342,578	6,444,524	337,160,508	22,309,385
Total assets	157,170,629	193,534,326	55,785,986	6,222,669	18,729,162	431,442,772	50,672,097
DEFERRED OUTFLOWS OF RESOURCES							
Loss on refunding	224,275	-	-	170,949	-	395,224	-
Related to pensions	172,595	166,078	93,805	6,925	262,713	702,116	407,659
Total deferred outflows of resources	396,870	166,078	93,805	177,874	262,713	1,097,340	407,659
LIABILITIES							
Current liabilities:							
Accounts payable	833,011	1,690,182	346,074	36,478	1,121,827	4,027,572	1,714,875
Accrued wages and benefits	194,504	209,709	113,888	4,168	203,145	725,414	591,897
Due to other funds	62,652	-	173,000	-	95,612	331,264	-
Due to other governments	-	-	-	-	-	-	84,065
Other current liabilities	20,939	3,400	51,954	-	118,724	195,017	729,274
Unearned revenue	-	-	-	-	-	-	30,000
Current portion of noncurrent liabilities:							
Bonds payable, net	707,000	710,000	-	520,000	-	1,937,000	-
Compensated absences	269,556	245,773	107,021	9,341	357,102	988,793	510,042
Intergovernmental loans	817,090	-	667,232	-	-	1,484,322	-
Claims and judgments payable	-	-	-	-	-	-	763,006
Pollution remediation obligation	-	-	-	1,020,686	-	1,020,686	-
Total current liabilities	2,904,752	2,859,064	1,459,169	1,590,673	1,896,410	10,710,068	4,423,159

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

CITY OF BELLINGHAM
Statement of Net Position
Proprietary Funds
December 31, 2019

	Business-Type Activities - Enterprise Funds					Governmental Activities	
	Water	Wastewater	Surface and Stormwater	Solid Waste	Nonmajor Enterprise Fund Totals	Enterprise Fund Totals	Internal Service Funds
Noncurrent liabilities:							
Bonds payable, net	4,080,145	56,040,346	-	3,103,327	-	63,223,818	6,100,000
Compensated absences	33,358	12,915	13,189	-	4,165	63,627	63,518
Intergovernmental loans	10,211,861	305,017	3,442,484	-	-	13,959,362	-
Claims and judgments payable	-	-	-	-	-	-	325,000
Pollution remediation obligation	-	-	-	13,381,721	-	13,381,721	-
Other noncurrent liabilities	-	-	-	-	-	-	305,000
Net pension liability	632,214	608,341	343,607	25,365	583,278	2,192,805	1,493,242
Total noncurrent liabilities	14,957,578	56,966,619	3,799,280	16,510,413	587,443	92,821,333	8,286,760
Total liabilities	17,862,330	59,825,683	5,258,449	18,101,086	2,483,853	103,531,401	12,709,919
DEFERRED INFLOWS OF RESOURCES							
Related to pensions	364,107	350,358	197,891	14,608	653,829	1,580,793	859,993
Total deferred inflows of resources	364,107	350,358	197,891	14,608	653,829	1,580,793	859,993
NET POSITION							
Net investment in capital assets	112,132,702	86,238,057	43,503,146	342,578	5,044,890	247,261,373	22,301,302
Restricted:							
Debt service	614,140	5,316,343	-	-	-	5,930,483	-
Capital improvements	2,068,053	6,277,198	-	-	-	8,345,251	-
Cemetery endowment / preneed	-	-	-	-	336,037	336,037	-
Pension asset	-	-	-	-	986,927	986,927	-
Rental property inspections	-	-	-	-	480,234	480,234	-
Unrestricted	24,526,167	35,692,765	6,920,305	(12,057,729)	9,006,105	64,087,613	15,208,542
Total net position	\$ 139,341,062	\$ 133,524,363	\$ 50,423,451	\$ (11,715,151)	\$ 15,854,193	\$ 327,427,918	\$ 37,509,844

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

CITY OF BELLINGHAM
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2019

	Business-Type Activities - Enterprise Funds					Governmental Activities	
	Water	Wastewater	Surface and Stormwater	Solid Waste	Nonmajor Enterprise Fund Totals	Enterprise Fund Totals	Internal Service Funds
Operating revenues:							
Sales of merchandise	\$ -	\$ -	\$ -	\$ -	\$ 348,409	\$ 348,409	\$ 2,278,463
Less: Cost of goods sold	-	-	-	-	(170,620)	(170,620)	(1,102,199)
Charges for services	28,840,430	25,649,680	9,870,144	-	14,158,659	78,518,913	24,844,331
Total operating revenues	28,840,430	25,649,680	9,870,144	-	14,336,448	78,696,702	26,020,595
Operating expenses:							
Labor	4,480,496	4,348,377	2,502,700	177,560	8,667,818	20,176,951	10,641,896
Supplies	1,572,221	1,394,293	385,690	4,686	1,179,880	4,536,770	2,679,038
Services	7,382,500	5,019,879	4,255,609	698,251	5,124,858	22,481,097	7,587,550
Depreciation	2,987,807	4,320,297	1,349,159	18,725	335,660	9,011,648	2,059,317
Taxes	6,084,451	3,391,523	1,179,634	-	37,849	10,693,457	2,194
Insurance	94,239	63,617	25,566	1,002	44,307	228,731	741,545
Claims	-	-	-	-	-	-	1,475,923
Total operating expenses	22,601,714	18,537,986	9,698,358	900,224	15,390,372	67,128,654	25,187,463
Operating income (loss)	6,238,716	7,111,694	171,786	(900,224)	(1,053,924)	11,568,048	833,132
Nonoperating revenues (expenses):							
External operating grants and subsidies	234,553	4,417	236,240	577	468,529	944,316	221,570
Operating assessments and tax levies	-	-	-	1,582,043	867,972	2,450,015	790,517
Investment interest	434,153	773,623	133,418	101,514	189,602	1,632,310	388,885
Net incr (decr) in fair value of investments	317,092	560,769	86,211	79,922	150,106	1,194,100	324,946
Interest expense and related charges	(313,833)	(2,484,184)	(83,901)	(123,039)	-	(3,004,957)	(332,030)
Gain (loss) on sale of capital assets	-	-	-	-	-	-	38,864
Other nonoperating revenues	167,446	33,821	23	3,953	5,306	210,549	163,643
Other nonoperating expenses	-	-	-	(4,280,677)	(856,840)	(5,137,517)	-
Total nonoperating revenues (expenses)	839,411	(1,111,554)	371,991	(2,635,707)	824,675	(1,711,184)	1,596,395
Income (loss) before contributions and transfers	7,078,127	6,000,140	543,777	(3,535,931)	(229,249)	9,856,864	2,429,527
Capital grants and contributions	871,143	470,501	959,361	-	-	2,301,005	-
Transfers in	-	510,000	500,000	-	84,000	1,094,000	6,495,319
Transfers out	(916,008)	(400,000)	(1,048,166)	(700,000)	(181,000)	(3,245,174)	(815,000)
Change in net position	7,033,262	6,580,641	954,972	(4,235,931)	(326,249)	10,006,695	8,109,846
Net position - beginning	132,307,800	126,943,722	49,468,479	(7,560,942)	16,180,442	317,339,501	29,399,998
Prior period adjustment	-	-	-	81,722	-	81,722	-
Net position - ending	\$ 139,341,062	\$ 133,524,363	\$ 50,423,451	\$ (11,715,151)	\$ 15,854,193	\$ 327,427,918	\$ 37,509,844

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

CITY OF BELLINGHAM
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Water	Wastewater	Surface and Stormwater	Solid Waste	Nonmajor Enterprise Fund Totals	Enterprise Fund Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from outside customers	\$ 29,180,299	\$ 25,688,956	\$ 10,082,839	\$ -	\$ 13,650,068	\$ 78,602,162	\$ 177,383
Receipts from interfund services provided	131,605	51,743	256,369	-	-	439,717	41,269,759
Payments to employees	(4,777,538)	(4,639,330)	(2,567,527)	(190,519)	(8,992,223)	(21,167,137)	(11,337,887)
Payments to suppliers and service providers	(12,594,850)	(7,193,027)	(2,783,920)	(336,808)	(3,281,291)	(26,189,896)	(22,128,158)
Payments to claimants	-	-	-	-	-	-	(1,765,921)
Payments for interfund services used	(4,026,007)	(2,520,615)	(3,771,869)	(371,191)	(2,668,155)	(13,357,837)	(3,703,962)
Other receipts	167,446	33,568	23	-	5,306	206,343	164,108
Other payments	-	-	-	-	(24)	(24)	-
Net cash from operating activities	8,080,955	11,421,295	1,215,915	(898,518)	(1,286,319)	18,533,328	2,675,322
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in from other funds	-	510,000	-	-	84,000	594,000	4,965,000
Transfers out to other funds	(900,000)	(400,000)	(400,000)	(700,000)	(181,000)	(2,581,000)	(815,000)
Proceeds from issuance of operating bonds	-	-	-	-	-	-	-
Operating grants and loans	542,119	4,417	236,240	577	426,168	1,209,521	217,339
Principal payments on operating debt	-	-	-	(495,000)	-	(495,000)	-
Interest payments on operating debt	-	-	-	(125,154)	-	(125,154)	(332,030)
Excise tax receipts	-	-	-	1,572,223	856,816	2,429,039	780,890
Taxes passed to other governments	-	-	-	-	(856,816)	(856,816)	-
Net cash from noncapital financing activities	(357,881)	114,417	(163,760)	252,646	329,168	174,590	4,816,199
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES							
Transfers in from other funds	-	-	500,000	-	-	500,000	600,000
Local improvement district proceeds	-	2,253	-	-	-	2,253	-
Proceeds from issuance of capital bonds	-	-	-	-	-	-	-
Intergovernmental loan proceeds	1,188,000	178,567	13,766	-	-	1,380,333	-
Capital grants and loans	-	-	626,766	-	-	626,766	-
Contributions from developers	-	-	289,478	-	-	289,478	-
Principal payments on capital debt	(1,410,890)	(695,000)	(657,926)	-	-	(2,763,816)	-
Interest payments on capital debt	(300,519)	(2,623,937)	(83,901)	-	-	(3,008,357)	-
Purchases of capital assets	(3,328,653)	(1,393,094)	(979,039)	-	(84,856)	(5,785,642)	(6,739,285)
Sale of capital assets	-	-	-	-	-	-	133,501
Net cash from capital financing activities	(3,852,062)	(4,531,211)	(290,856)	-	(84,856)	(8,758,985)	(6,005,784)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from sales and maturity of investments	8,252,622	14,560,872	2,368,576	2,773,128	5,140,211	33,095,409	11,961,580
Purchase of investments	(12,811,835)	(22,685,737)	(3,378,303)	(2,646,326)	(5,051,994)	(46,574,195)	(14,646,992)
Interfund loan payments received	-	-	-	-	-	-	-
Interfund loans issued	-	-	-	-	-	-	-
Interest and dividends received	410,538	731,612	127,922	100,696	187,465	1,558,233	372,671
Net cash from investment activities	(4,148,675)	(7,393,253)	(881,805)	227,498	275,682	(11,920,553)	(2,312,741)
Net increase (decrease) in cash and equivalents	(277,663)	(388,752)	(120,506)	(418,374)	(766,325)	(1,971,620)	(827,004)
Cash and cash equivalents - beginning of year	5,953,251	10,438,439	1,617,080	1,590,684	2,998,431	22,597,885	6,241,111
Cash and cash equivalents - end of year	\$ 5,675,588	\$ 10,049,687	\$ 1,496,574	\$ 1,172,310	\$ 2,232,106	\$ 20,626,265	\$ 5,414,107

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

CITY OF BELLINGHAM
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

	Business-Type Activities - Enterprise Funds					Governmental Activities	
	Water	Wastewater	Surface and Stormwater	Solid Waste	Nonmajor Enterprise Fund Totals	Enterprise Fund Totals	Internal Service Funds
Reconciliation of operating income (loss) to net cash from operating activities:							
Operating income (loss)	\$ 6,238,716	\$ 7,111,694	\$ 171,786	\$ (900,224)	(1,053,924)	\$ 11,568,048	\$ 833,132
<i>Adjustments to reconcile operating income (loss) to net cash from operating activities:</i>							
Depreciation	2,987,807	4,320,297	1,349,159	18,725	335,660	9,011,648	2,059,317
Pension expense - proportionate share	(285,438)	(262,291)	(36,964)	(15,451)	(354,486)	(954,630)	(687,813)
Fleet donations	(16,008)	-	(648,166)	-	-	(664,174)	24,462
Miscellaneous income	167,446	33,568	23	-	5,306	206,343	164,108
Miscellaneous expenses	-	-	-	-	(24)	(24)	-
(Increase) decrease in accounts receivable	513,951	39,276	36,504	-	71,699	661,430	(25,537)
(Increase) decrease in due from other funds	(171,392)	-	-	-	95,612	(75,780)	-
(Increase) decrease in due from other governments	-	-	-	-	(1,011,973)	(1,011,973)	(35,003)
(Increase) decrease in inventories	-	-	-	-	(47,957)	(47,957)	16,041
(Increase) decrease in prepaid items	-	-	-	-	-	-	(798,040)
Increase (decrease) in accounts payable	(1,428,153)	203,378	122,816	(301)	637,740	(464,520)	643,752
Increase (decrease) in wages and benefits payable	22,796	(27,076)	43,090	2,492	43,676	84,978	18,569
Increase (decrease) in revenues collected in advance	(15,694)	-	-	-	5,230	(10,464)	3,618
Increase (decrease) in due to other funds	62,652	(1,608)	172,042	-	-	233,086	-
Increase (decrease) in due to other governments	-	-	-	-	-	-	79,962
Increase (decrease) in other current liabilities	-	1,400	2,464	-	718	4,582	303,940
Increase (decrease) in other long-term liabilities	4,272	2,657	3,161	(3,759)	(13,596)	(7,265)	74,814
Total Adjustments	1,842,239	4,309,601	1,044,129	1,706	(232,395)	6,965,280	1,842,190
Net cash from operating activities	\$ 8,080,955	\$ 11,421,295	\$ 1,215,915	\$ (898,518)	\$ (1,286,319)	\$ 18,533,328	\$ 2,675,322
Schedule of noncash activities:							
Net change in fair value of investments	317,092	560,769	86,211	79,922	150,106	1,194,100	324,946
Contributions from developers	871,143	470,501	204,547	-	-	1,546,191	-
Fleet donations	-	-	-	-	-	-	930,319

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

CITY OF BELLINGHAM
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2019

	Custodial Funds
ASSETS	
Cash and cash equivalents	\$ 114,825
Leasehold tax receivable	1,163
Total assets	115,988
LIABILITIES	
Due to other governments	115,988
Total liabilities	\$ 115,988
NET POSITION	
Restricted for other governments	-
Total net position	\$ -

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

CITY OF BELLINGHAM
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
December 31, 2019

	Custodial Funds
ADDITIONS	
School impact fee collections	485,470
Court shared revenue collections	626,570
Leasehold tax collections	67,062
Total additions	1,179,102
DEDUCTIONS	
Credit card fees paid	875
School impact fee remittances	484,595
Court shared revenue remittances	626,570
Leasehold tax remittances	67,062
Total deductions	1,179,102
Change in net position	-
Net position - beginning	-
Net position - ending	\$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bellingham have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies and their application in Bellingham are described below.

A. Reporting entity

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

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

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

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

The accompanying financial statements present the City and its component unit, an entity for which the City is considered financially accountable. The City's discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City and does not meet the criteria for blending as laid out in paragraph eight of GASB No. 61.

Discretely presented component units

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

The City issued bonds on behalf of the PFD in 2004 which were refunded in 2012 by the City to achieve debt savings. The PFD issued bonds in 2007 and these bonds were advance refunded and defeased in 2016 by the City also to achieve debt savings. The City issued the 2016 refunding bonds on behalf of the PFD. Payments for both bonds issued by the City on behalf of the PFD, are expected to be made from PFD tax revenues. The PFD is obligated under interlocal agreement 2016-0268 to repay the City for both bonds. Given that the PFD is legally separate from the City, the PFD's board is appointed by the City, the

City can impose its will on the PFD, and none of the criteria in GASB No. 61 paragraph eight apply to the PFD, the PFD qualifies as a discrete component unit.

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

B. Basis of presentation - government-wide and fund financial statements

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

The statement of activities shows the degree that the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services that are also offered to the general public. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expense.

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

The City reports the following major governmental funds:

The *General fund* is the City's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. Beginning in 2011, street maintenance was added as part of the *General fund* presented in the CAFR. In 2012, several additional former special revenue funds were reported in the *General fund* to comply with GASB Statement No. 54. In 2019, the two former fiduciary pension funds are also reported in the *General fund* to comply with GASB Statement No. 84. As of 2019, there are a total of nine funds in addition to the originally budgeted *General fund* that roll up as part of the combined *General fund* presented in the CAFR. These additional former special revenue and fiduciary funds, now referred to as *General fund subsidiaries*, are budgeted separately from the *General fund* and have individual budget and actual statements included in the combining and individual fund statements. See RSI for the composition of the *General fund*.

The City reports the following four major proprietary funds:

The *Water fund* accounts for the activities of the City's largest utility. The revenues are received from the sales of materials, supplies, and services. Expenses are for maintenance and extension of water

service systems. This fund also reflects the accounting of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

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

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

The *Solid Waste fund* accounts for litter compliance expenses and also accounts for remediation costs of cleaning up several landfill sites. The City has issued two general obligation bonds for the City's share of remediation costs to be repaid primarily by net revenues from the *Solid Waste fund*. These revenues are generated principally by tax revenues paid by the City's garbage contractor.

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

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

Fiduciary funds are custodial in nature and represent assets held in a trustee or agency capacity for others. These funds do not report results of operation. Custodial funds consist of the *Guaranty Deposit* and *School Impact Fee* funds.

C. Measurement focus, basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cashflows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

The custodial funds have no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balances

Deposits and investments

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

Investments for the City as well as for its component units are reported at fair value. The LGIP operates in accordance with appropriate state laws and regulations. The reported value of the LGIP is the same as the fair value of the pool shares. Investments are reported separately on the balance sheet. Excess cash balances of all City funds are pooled and invested. The annual change in investment balances is shown net of "Proceeds from sales and maturity of investment securities" and "Purchase of investments" on the statement of cash flows.

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

- Library Gift
- CDBG Grant
- Drake Note
- Governmental Debt Service
- Guaranty Deposit
- Accounts Payable
- Payroll Clearing

Receivables

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

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

Interfund activity

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

Inventories and prepaid items

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

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

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

Capital assets

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

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

The cost of normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life are not capitalized.

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

Capital assets are defined by the City as assets with an estimated useful life in excess of one year and an individual cost for each asset category in excess of the following amounts. All depreciable assets are depreciated using the straight-line method.

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

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

Deferred outflows/inflows of resources

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

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

Compensated absences

City policy permits employees to accumulate unused vacation leave. Vacation leave is earned at rates established in individual bargaining unit agreements. Each employee may accumulate up to double their established annual accrual rate. Unused vacation is payable upon termination of employment. Upon retiring, contractual limitations have been imposed on PERS I employees to limit vacation payout to a maximum of 240 hours. Currently, certain bargaining groups (by individual contracts) are also eligible for an annual vacation leave cash out program. Employees with accumulated banks of at least 88 hours on October 15 of each of year, have the option of cashing out a minimum of 8 hours to a maximum of 40 hours of vacation leave accumulated. Employee banks will be reduced by the number of hours cashed out and balance of at least 80 hours of accrued vacation leave must remain in the bank when the transaction is complete. Vacation liabilities are recorded at year-end in full accrual funds and in the government-wide statements.

City policy permits employees to accumulate unused sick leave. Sick leave is earned at rates established in individual bargaining unit agreements. Each employee may accumulate a maximum of 1040 hours approximately. This number varies based upon which union you are in. Unused sick leave is payable upon termination only to LEOFF II employees. LEOFF II employees may cash out up to 150-300 hours of their accumulated sick leave balance upon retirement depending upon whether they are fire or police employees. The City maintains a liability in the proprietary funds for future sick leave cash-out payments. Currently, both the Teamsters 231 and AFSCME 114 bargaining groups are also eligible for an annual optional sick leave cash out program. Employees with accumulated banks of at least 480 hours on December 15 of each year, have the option of cashing out 25 percent of sick leave hours accumulated and not used in the prior twelve-months. Employees with 720 hours, have the option of cashing out 50 percent, and employees with 960 hours receive automatic compensation of 48 hours with no leave bank reduction.

Pensions

The net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the City of Bellingham Firefighters' (FFP), City of Bellingham Police Officers' (POP), and the Washington State Department of Retirement Systems (DRS) pension plans', and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by each plan. For this purpose, plan contributions (if applicable) are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other post-employment benefits (OPEB)

The total liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the net position of the City of Bellingham Firefighters' (FHC), City of Bellingham Police Officers' (PHC) healthcare plans', and additions to/deductions from the plans' net position have been determined on the same basis as they are reported by each plan. For this purpose, benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-term obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund statements of net position. Bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted assets

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

Contributions of capital

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

Estimates

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

Comparative data/reclassifications

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

Fund balance

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

reporting and governmental fund type definitions, the City classifies governmental fund balance as follows:

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

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed or constrained due to constitutional provisions or enabling legislation. The City's restricted fund balance includes HUD grant money restricted for federal projects, the spendable portion of permanent funds, debt service, and special revenue funds. Special revenue fund balance, purpose and funding sources can be found in the combining and individual fund statements.

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

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

Unassigned – the residual balance for the *General fund* is unassigned. The *General fund* is the only fund that can report a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Spending prioritization in using available resources

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

Fund reserve goals

The City has Financial Management Guidelines that sets reserve goals and reserve minimums for selected City funds including the *General fund*, *Water*, *Wastewater*, *Surface and Stormwater*, *Parking*, *Medic One*, *Fleet*, and the *Health Benefits* funds. This document is available on the City's website at:

<https://www.cob.org/Documents/finance/publications/2010-financial-management-guidelines.pdf>

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

Meeting the minimum reserve goal is integral to the budget process and is reported in the Adopted Budget document. The budget department tracks the reserve amounts throughout the year. At year end the actual ending reserves are reviewed and adjustments are made if required.

Net position

In accordance with GASB Statement 63, proprietary, fiduciary, and government-wide financial statements shall report net position. Concepts Statement 4 identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement 34. The elements of net position are similar to those of net assets. Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components: net investment in capital assets, restricted, and unrestricted.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Biennial appropriated budgets are adopted for the general, special revenue and debt service funds on a basis consistent with generally accepted accounting principles (GAAP). Capital project funds adopt budgets on an individual project basis. Proprietary and fiduciary funds are budgeted for management purposes only. National Council on Governmental Accounting Statement No. 1 requires financial statements presenting budgetary comparisons for governmental fund types only.

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

The City's budget procedures were created in accordance with RCW 35.34. On or before November 1, every even number year, the Mayor submits a proposed budget to the City Council for the following odd and even number years. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months. The budget is balanced with revenue estimates made by the Finance Director. Council conducts public hearings on the proposed budget on or before the first Monday in December. The Council makes its adjustments to the proposed budget and adopts, by ordinance, a final balanced budget by fund, no later than December 31. Within 30 days of adoption, the final budget is available to the public.

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

In the middle of the two year budget cycle, the City may prepare a proposed mid-biennial budget modification. Public hearings on the proposed budget modification are held and the mid-biennium budget modification is presented in an ordinance for adoption by the City Council during this period.

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

B. Deficit fund equity

As of December 31, 2019, the following funds reported deficits in fund balance or fund equity:

Fund 440 – The Solid Waste fund has a deficit net position of \$11.7 million. This deficit is due to 1) In 2005 the City issued bonds totaling \$8.7 million, and in 2014 issued bonds totaling \$5.5 million to advance refund and defease bonds maturing in years 2020-2025. The *Solid Waste fund* has a bond payable liability of \$3.6 million on December 31, 2019. The purpose of the 2005 bonds was to finance (a) the environmental cleanup of the Holly Street landfill, (b) the City's share of the environmental cleanup of the Cornwall Avenue and Central Waterfront landfill sites by the Port of Bellingham, and (c) the acquisition of the Colony Wharf property adjacent to the Roeder Avenue landfill. In 2006, the *Solid Waste fund* sold Colony Wharf to the *General fund*, so it no longer has the asset, but still has a liability for the debt. The remediation expenses did not increase assets. 2) Per GASB 49, the City has a net pollution remediation liability in the *Solid Waste fund* of \$14.4 million on December 31, 2019. The utility tax received by the *Solid Waste fund* was increased from 7% to 11.5% effective May 1, 2005, in order to accommodate the debt service requirements for the projects funded from bond proceeds. The deficit will be reduced as the bonds payable liability is reduced and as the pollution remediation liability is reduced. See Note 14 for further discussion on pollution remediation.

Fund 530 – The Facilities Administration fund has a deficit net position of \$787 thousand. This deficit is largely due to issuing qualified energy conservation bonds in 2011 to finance noncapital improvements in over 20 City owned municipal buildings. These improvement expenses did not increase assets. The deficit will be eliminated when the bonds mature in 2025. These are term bonds; principal is due in full on the maturity date. The *Facilities Administration fund* has a long-term bond payable liability of \$6.1 million on December 31, 2019.

Fund 570 – The Public Works Administration and Engineering fund has a deficit net position of \$14 thousand. As an internal service fund, this fund provides services to other funds within the government and is reimbursed based on an allocation for these costs. In 2015, the recovery costs charged to the funds that received labor and benefits from fund 570 was an estimate of the actual costs incurred and the estimate was too low to recover all costs incurred. In 2016-2019, this deficit issue has improved and should continue to improve in the future due to allocating the actual costs incurred in fund 570 amongst the funds receiving the benefits. Additionally, there is a deficit in this fund because of the net pension liability of \$726 thousand on December 31, 2019. This liability is a result of GASB 68's implementation and has been allocated to this fund based on the employees who are home-funded here.

C. Excess of expenditures over appropriations

As of December 31, 2019, there has been no material violation of finance related legal or contractual provisions in any City governmental fund.

3. Deposits and investments

Deposits

The City's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). The FDIC insures the City's deposits up to \$250,000; the PDPC covers amounts in excess of \$250,000.

Investments

The City invests excess and inactive funds, in accordance with City Investment Policy and Washington State statute, RCW 35A.40.060. The government utilizes a pooled investment concept for all its funds to maximize its investment program. Investments are valued at fair value as of December 31, 2019 and investments with a purchase life of less than one year are reported at cost.

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

Interest rate risk

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

Credit risk

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

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Per the City's Investment Policy, the City diversifies its investments by security type and institution with no more than 50% of the City's total investment portfolio invested in a single security type or with a single financial institution.

Foreign currency risk

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

Custodial credit risk

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction the City will not be able to recover the value of the investment or collateral securities. For this reason, per the City's Investment Policy, all security transactions, including collateral for repurchase agreements, entered into by the City of Bellingham are conducted on a delivery-versus-payment (DVP)

basis and are held in Safekeeping with U.S. Bank. All of the City's investments are insured or registered in the name of the City or held by the City or its agent in the City's name.

Fair value of deposits and investments at December 31, 2019

Fair value hierarchy

Deposit and investment type / issuer	Fair value	Maturity period			% of total	Moody's rating
		≥ 3 months	4-12 months	1-5 years		
Cash and cash equivalents						
Local Government Investment Pool (LGIP)	\$ 36,701,158	\$ 36,701,158	\$ -	\$ -		unrated
Deposits	20,717,865	20,717,865	-	-		unrated
Total cash and cash equivalents	57,419,023	57,419,023	-	-		
Investments at fair value						
U.S. Government Sponsored Agency Securities (implicitly guaranteed):						
Farmer MAC (FMAC)	15,002,745	4,998,575	-	10,004,170	6.66%	Aaa
Federal Farm Credit Bank (FFCB)	37,618,785	-	2,513,065	35,105,720	16.71%	Aaa
Federal Home Loan Bank (FHLB)	63,197,514	-	12,429,386	50,768,128	28.06%	Aaa
Federal Home Loan Mortgage Corp. (FHLMC)	37,431,705	-	-	37,431,705	16.62%	Aaa
Federal National Mortgage Association (FNMA)	46,042,647	-	12,983,304	33,059,343	20.45%	Aaa
Municipal Bonds:						
Oregon State School Boards Association	2,560,175	2,560,175	-	-	1.14%	Aa1
Travis County Texas GO LTD	2,971,830	-	2,971,830	-	1.32%	Aaa
Oregon State GO	501,245	-	501,245	-	0.22%	Aa1
WA State GO Bond	4,984,050	-	4,984,050	-	2.21%	Aa1
New York City Taxable GO Bonds	4,995,850	-	-	4,995,850	2.22%	Aa1
Resolution Funding STRIPS	4,760,991	-	-	4,760,991	2.11%	Aaa
Tulsa CO ISD #5	5,116,850	-	-	5,116,850	2.27%	Aa2
Total investments at fair value	225,184,387	7,558,750	36,382,880	181,242,757	100.00%	
Total deposits and investments	\$ 282,603,410	\$ 64,977,773	\$ 36,382,880	\$ 181,242,757		
Less:						
Fiduciary fund deposits and investments	(114,825)					
Statement of net position total	\$ 282,488,585					

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

Public Facilities District	
Cash and cash equivalents	
Local Government Investment Pool (LGIP)	\$ 281,352
Deposits	158,823
Total cash and cash equivalents	440,175
Investments at fair value	
U.S. Government Sponsored Agency Securities	1,635,838
Municipal Bonds	90,432
Total investments	1,726,270
Total deposits and investments	\$ 2,166,445

The City measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1 inputs: quoted prices in active markets for identical assets.
- Level 2 inputs: quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.

- Level 3 inputs: unobservable inputs for an asset or liability.

Fair value hierarchy at December 31, 2019

Investments by fair value level	Quoted prices level 1	Significant observable inputs level 2	Significant unobservable inputs level 3	Totals
U.S. Government Sponsored Agency Securities	\$ -	\$ 199,293,396	\$ -	\$ 199,293,396
Municipal Bonds	-	25,890,991	-	25,890,991
Local Government Investment Pool (LGIP)	-	36,701,158	-	36,701,158
Total investments by fair value level	\$ -	\$ 261,885,545	\$ -	\$ 261,885,545

4. Receivables

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

Receivables as of December 31, 2019

Governmental funds	General	Nonmajor governmental
Taxes	\$ 5,408,927	\$ 1,405,338
Accounts	18,559,477	51,766
Gross receivables	23,968,404	1,457,104
Less: allowance for uncollectible	(11,996,592)	-
Total governmental	\$ 11,971,812	\$ 1,457,104

Proprietary funds	Water	Waste water	Surface & stormwater	Solid waste	Nonmajor enterprise	Internal service
Interest	\$ 90,561	\$ 160,356	\$ 23,880	\$ 18,706	\$ 35,616	\$ 86,389
Taxes	-	-	-	-	155,127	143,585
Accounts	1,181,369	1,377,164	459,041	91,541	1,559,260	33,947
Gross receivables	1,271,930	1,537,520	482,921	110,247	1,750,003	263,921
Less: allowance for uncollectible	-	-	-	-	(1,240,854)	-
Total business-type	\$ 1,271,930	\$ 1,537,520	\$ 482,921	\$ 110,247	\$ 509,149	\$ 263,921

Fiduciary funds	Guaranty Deposit
Accounts	\$ 1,163
Total fiduciary	\$ 1,163

5. Property taxes

The Whatcom County Treasurer collects property taxes levied in the County for all taxing authorities.

Property tax calendar

January 1	Tax is levied and becomes an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property is established for the following year's levy at 100 percent of market value.
October 31	Second of two equal installment payments is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

Washington State Constitution and Washington State law, RCW 84.52.043, limit the regular levy rate to 1% of the total fair market value within the district and a combined \$5.90/1000 of other local regular levies. If the \$5.90 limit is exceeded, then levies will be prorated in a prearranged order per RCW 84.52.010.

State law authorizes the City to levy up to \$3.60/\$1,000 of assessed value for general governmental services, plus an additional \$.225/\$1,000 for the fire fighter's pension fund.

The total assessed valuation of the City of Bellingham for 2019 was \$12,187,330,648. The City's regular levy rate was \$1.462/\$1,000, for a total regular levy of \$17,819,871.

Special levies approved by the voters are not subject to the same statutory limitations. For 2019, voters authorized an additional special levy rate of \$.745/\$1,000, totaling \$9,080,468.

Property tax levies 2019

Purpose of Levy	Type	Rate/\$1,000	Tax
General fund	regular levy	1.2527868875	\$ 15,268,128
Fire pension	regular levy	0.2047964458	2,495,922
New What RDA LIFT	regular levy	0.0045802458	55,821
Total regular levy		1.4621635791	17,819,871
Affordable Housing	special levy	0.3282096888	4,000,000
Greenways IV - parks	special levy	0.4168647054	5,080,468
Total special levy		0.7450743942	9,080,468
Total Levy		2.2072379733	\$ 26,900,339

6. Capital assets

Capital asset activity for the year ended December 31, 2019, is summarized as follows:

Primary government				
Governmental activities	Beginning balance 1/1/2019	Additions	Reductions	Ending balance 12/31/2019
Capital assets not being depreciated:				
Land	\$ 85,488,948	\$ -	\$ -	\$ 85,488,948
Improvements	17,614,900	-	-	17,614,900
Construction in progress	6,535,288	11,051,237	(1,880,527)	15,705,998
Intangibles - right of ways	58,986,689	5,265	-	58,991,954
Total capital assets, not being depreciated/amortized	168,625,825	11,056,502	(1,880,527)	177,801,800
Capital assets being depreciated/amortized:				
Buildings	47,024,861	-	-	47,024,861
Improvements other than buildings	324,502,336	10,255,032	-	334,757,368
Machinery and equipment	32,457,233	4,272,132	(745,435)	35,983,930
Intangibles - software	4,621,465	-	-	4,621,465
Total capital assets being depreciated/amortized	408,605,895	14,527,164	(745,435)	422,387,624
Less accumulated depreciation/amortization for:				
Buildings	(21,945,323)	(904,644)	-	(22,849,967)
Improvements other than buildings	(134,867,014)	(9,001,604)	-	(143,868,618)
Machinery and equipment	(16,981,565)	(2,464,033)	650,798	(18,794,800)
Intangibles - software	(3,088,736)	(298,169)	-	(3,386,905)
Total accumulated depreciation/amortization	(176,882,638)	(12,668,450)	650,798	(188,900,290)
Total capital assets, being depreciated/amortized, net	231,723,257	1,858,714	(94,637)	233,487,334
Governmental activities capital assets, net	\$ 400,349,082	\$ 12,915,216	\$ (1,975,164)	\$ 411,289,134

Business-type activities	Beginning balance 1/1/2019	Additions	Reductions	Ending balance 12/31/2019
Capital assets not depreciated/amortized:				
Land	\$ 47,047,593	\$ 1,392,712	\$ -	\$ 48,440,305
Construction in progress	1,354,914	2,332,390	(557,906)	3,129,398
Intangibles - right of ways	206,111	-	-	206,111
Total capital assets, not being depreciated/amortized	48,608,618	3,725,102	(557,906)	51,775,814
Capital assets depreciated/amortized:				
Buildings	156,379,316	-	-	156,379,316
Improvements other than buildings	290,098,530	4,066,952	(14,099)	294,151,383
Machinery and equipment	6,316,947	97,687	-	6,414,634
Intangibles - software	284,325	-	-	284,325
Total capital assets, being depreciated/amortized	453,079,118	4,164,639	(14,099)	457,229,658
Less accumulated depreciation/amortization for:				
Buildings	(60,462,769)	(2,797,035)	-	(63,259,804)
Improvements other than buildings	(111,969,778)	(5,798,450)	14,099	(117,754,129)
Machinery and equipment	(4,081,044)	(416,163)	-	(4,497,207)
Intangibles - software	(284,325)	-	-	(284,325)
Total accumulated depreciation/amortization	(176,797,916)	(9,011,648)	14,099	(185,795,465)
Total capital assets, being depreciated/amortized, net	276,281,202	(4,847,009)	-	271,434,193
Business-type activities capital assets, net	<u>\$ 324,889,820</u>	<u>\$ (1,121,907)</u>	<u>\$ (557,906)</u>	<u>\$ 323,210,007</u>

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

Governmental activities	
General governmental	\$ 255,135
Public safety	979,308
Transportation	7,156,226
Cultural and recreational	2,152,478
Economic environment	65,986
Internal service fund capital assets are charged to various functions based on the usage of the assets	2,059,317
Total depreciation expense - governmental activities	<u>\$ 12,668,450</u>
Business-type activities	
Cemetery	\$ 2,940
Water	2,987,807
Wastewater	4,320,297
Storm and surface water	1,349,159
Solid waste	18,725
Golf	48,695
Parking	123,925
Medic one	160,100
Total depreciation expense - business-type activities	<u>\$ 9,011,648</u>

Capital asset activity for the year ended December 31, 2019, is summarized as follows:

Discretely presented component unit				
Bellingham-Whatcom Public Facility District	Beginning balance 1/1/2019	Additions	Reductions	Ending balance 12/31/2019
Capital assets not depreciated:				
Land	\$ 1,329,860	\$ -	\$ -	\$ 1,329,860
Total capital assets, not being depreciated/amortized	1,329,860	-	-	1,329,860
Capital assets depreciated:				
Buildings	19,094,610	-	-	19,094,610
Improvements other than buildings	9,070,078	-	-	9,070,078
To Total capital assets being depreciated/amortized	28,164,688	-	-	28,164,688
Less accumulated depreciation for:				
Buildings	(5,881,443)	(329,015)	-	(6,210,458)
Improvements other than buildings	(2,881,830)	(276,854)	-	(3,158,684)
To Total accumulated depreciation/amortization	(8,763,273)	(605,869)	-	(9,369,142)
Total capital assets, being depreciated/amortized, net	19,401,415	(605,869)	-	18,795,546
Public Facilities District capital assets, net	<u>\$ 20,731,275</u>	<u>\$ (605,869)</u>	<u>\$ -</u>	<u>\$ 20,125,406</u>

7. Interfund receivables, payables and transfers

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

Due to other funds and due from other funds result from goods issued, work performed, or services rendered to or for the benefit of another fund of the same government when cash is not immediately moved between the funds.

The following schedule shows the interfund loans receivables and loans payables as well as the due to and due from other funds balances. All interfund loans and due to and from balances are expected to be repaid within a year unless other terms are specifically established as noted below.

Interfund balances at December 31, 2019				
	Interfund loans receivable	Interfund loans payable	Due from other funds	Due to other funds
General	\$ -	\$ 1,255,072	\$ 121,922	\$ -
Nonmajor governmental	1,255,072	-	67,684	31,342
Water	-	-	173,000	62,652
Surface and stormwater	-	-	-	173,000
Nonmajor enterprise	-	-	-	95,612
Total government-wide	<u>\$ 1,255,072</u>	<u>\$ 1,255,072</u>	<u>\$ 362,606</u>	<u>\$ 362,606</u>

Internal balances between governmental activities and business type activities \$ 158,264

Greenways Endowment fund made a \$3,232,022 loan to the *Greenways III fund* in 2011 for a land purchase. In 2013, the Chuckanut Community Forest Park District was formed by voter approval for the express purpose of paying off the *Greenways III fund* loan (Interlocal Agreement 2013-0624). The District has levied a property tax of \$0.28 per thousand dollars of assessed valuation to repay the *Greenways Endowment fund* for this land purchase. The loan is scheduled to be repaid over ten years, beginning in 2014. The loan repayment is based on a variable rate of interest equal to the current rate of return on investments not to exceed 3% annually. In addition, the Chuckanut Community Forest Park District's payment increases from 50% to 90% of the tax levy received over the first three years of the agreement. There is \$1,255,072 remaining on this loan at year-end, and of that amount an estimated \$743,311 will not be repaid in 2020.

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

Transfers at December 31, 2019

	Transfers In	Transfers Out							
		General	Nonmajor Governmental	Water	Wastewater	Surface & Stormwater	Solid Waste	Nonmajor Enterprise	Internal Service
General	\$ 436,144	\$ (300,573)	\$ (135,571)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonmajor Governmental	1,290,305	(690,305)	-	-	-	-	(600,000)	-	-
Wastewater	510,000	(429,000)	-	-	-	-	-	(81,000)	-
Surface & Stormwater	500,000	-	-	(500,000)	-	-	-	-	-
Nonmajor Enterprise	84,000	(84,000)	-	-	-	-	-	-	-
Internal Service	6,495,319	(3,616,145)	-	(416,008)	(400,000)	(1,048,166)	(100,000)	(100,000)	(815,000)
Total	<u>\$ 9,315,767</u>	<u>\$ (5,120,022)</u>	<u>\$ (135,571)</u>	<u>\$ (916,008)</u>	<u>\$ (400,000)</u>	<u>\$ (1,048,166)</u>	<u>\$ (700,000)</u>	<u>\$ (181,000)</u>	<u>\$ (815,000)</u>

8. Operating leases

The City leases radio towers, urban village library space, off-site data servicing facilities, fiber optics, office spaces, storage units, office equipment including photocopiers, postage machines, and scanners under operating lease agreements. Operating leases do not give rise to property rights or lease obligations and therefore the results of the lease agreements are not reflected in the City’s statement of net position. Operating lease expenditures for 2019 totaled \$555,674. The future minimum lease payments for non-cancelable leases are as follows:

Future minimum lease payments at December 31, 2019

2020	\$ 422,189
2021	192,671
2022	131,146
2023	119,139
2024	102,703
Total	<u>\$ 967,848</u>

9. Capital construction commitments

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

Construction commitments as of December 31, 2019

	Spent to date	Remaining commitment
Street projects	\$ 9,141,875	\$ 3,448,867
Parks projects	5,258,303	553,902
Water projects	158,262	2,028,596
Wastewater projects	1,397,973	1,268,240
Stormwater projects	1,573,164	389,394
	<u>\$ 17,529,577</u>	<u>\$ 7,688,999</u>

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

10. Long-term debt

General obligation bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The City has issued general obligation bonds to finance improvements in over 20 City buildings to reduce energy consumption, acquisition of the Sportsplex building, improvements to the Civic Field Stadium, construction of the Whatcom Art and Children's Museum, renovations to Mount Baker Theater, pollution remediation activities, and refunding of previously issued bonds. General obligation bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The 2011 QEC bond is being repaid by the *Facilities Administration fund*. The City's portion of the 2012 LTGO Refunding bond is being repaid by general governmental revenue sources and the *PFD* is repaying its portion of the bond, per the Financing Agreement. The *PFD* is also repaying the 2016 LTGO Refunding bonds. The 2014 LTGO bonds are being repaid by the *Solid Waste fund*.

General obligation bonds outstanding December 31, 2019					
Name of issuance/purpose	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
11 LTGO QEC Energy Conservation Improv	\$ 6,480,000	04/27/11	12/01/25	5.43%	\$ 6,100,000
12 LTGO Rfdg of 04 Civic Fld/Sportsplex/PPD	14,370,000	03/29/12	12/01/28	2.00 - 4.00%	7,175,000
16 LTGO Rfdg of 07 PFD bond A Museum/Theater	8,815,000	04/20/16	12/01/27	.60 - 4.00%	8,665,000
Total governmental activities	29,665,000				21,940,000
Business-type activities					
14 LTGO Solid Waste Rfdg A Pollution Remediation	3,170,000	12/17/14	12/01/25	3.00 - 4.00%	3,170,000
14 LTGO Solid Waste Rfdg B Pollution Remediation	2,280,000	12/17/14	12/01/20	.40 - 2.35%	275,000
Total business-type activities	5,450,000				3,445,000
Total general obligation bonds outstanding	<u>\$ 35,115,000</u>				<u>\$ 25,385,000</u>

General obligation bond annual debt service requirements to maturity						
Year ending	Governmental activities			Business-type activities		
	Principal	Interest	Total requirements	Principal	Interest	Total requirements
December 31						
2020	\$ 1,460,000	\$ 878,755	\$ 2,338,755	\$ 520,000	\$ 113,374	\$ 633,374
2021	1,595,000	828,055	2,423,055	560,000	100,100	660,100
2022	1,730,000	772,055	2,502,055	575,000	83,300	658,300
2023	1,875,000	711,405	2,586,405	555,000	66,050	621,050
2024	2,030,000	636,405	2,666,405	605,000	49,400	654,400
2025-2028	13,250,000	801,080	14,051,080	630,000	25,200	655,200
Total	<u>\$ 21,940,000</u>	<u>\$ 4,627,755</u>	<u>\$ 26,567,755</u>	<u>\$ 3,445,000</u>	<u>\$ 437,424</u>	<u>\$ 3,882,424</u>

As of December 31, 2019, the City has \$3,787,365 available in debt service funds and \$9,450 in the *Facilities Administration fund* to service the general bonded debt.

Revenue bonds

The City has issued revenue bonds to finance the acquisition and construction of improvements to capital assets relating to improving the water/wastewater system, and the refunding of previously issued revenue bonds. These assets include real property purchased in the Lake Whatcom Watershed in order to preserve water quality, improvements to the City's water supply/distribution system and wastewater collection/disposal system, expansion of and improvements to Post Point Wastewater Plant, construction of a 3.5 million gallon reservoir with offsite piping, and pipeline replacements. When issuing revenue bonds, the City pledges future income derived from the acquired or constructed assets to pay the debt service.

Revenue bonds outstanding December 31, 2019

Name of issuance/purpose	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Business-type activities					
11 Water/Sewer system improvements	\$ 42,655,000	09/27/11	08/01/41	2.00 - 5.00%	\$ 38,485,000
12 Water/Sewer Rfdg 04 bond system imprvmts	3,275,000	03/29/12	08/01/24	2.00 - 4.00%	1,820,000
13 Water/Sewer system improvements	15,785,000	08/27/13	08/01/43	4.25 - 5.00%	15,570,000
15 Water/Sewer Rfdg 06 bond system imprvmts	4,035,000	11/10/15	08/01/26	2.17%	2,861,000
Total revenue bonds outstanding	<u>\$ 65,750,000</u>				<u>\$ 58,736,000</u>

Revenue bond annual debt service requirements to maturity

Year ending December 31	Business-type activities		Total requirements
	Principal	Interest	
2020	\$ 1,417,000	\$ 2,720,420	\$ 4,137,420
2021	1,466,000	2,671,781	4,137,781
2022	1,523,000	2,617,946	4,140,946
2023	1,575,000	2,561,809	4,136,809
2024	1,636,000	2,503,762	4,139,762
2025-2029	9,334,000	11,465,201	20,799,201
2030-2034	11,855,000	9,017,063	20,872,063
2035-2039	15,040,000	5,826,313	20,866,313
2040-2043	14,890,000	1,804,016	16,694,016
Total	<u>\$ 58,736,000</u>	<u>\$ 41,188,311</u>	<u>\$ 99,924,311</u>

The revenue bonds listed above will be repaid solely from water/wastewater system net income and are payable through 2043. The total principal and interest remaining to be paid on the bonds is \$99,924,311. Principal and interest expense for the current year and total net available income were \$4,115,862 and \$29,098,795, respectively.

To service revenue bond debt, \$4,189,743 is available in the reserve accounts of the *Water* and *Wastewater* enterprise funds as of December 31, 2019 in compliance with applicable bond covenants.

Water and Sewer revenue bond covenants require that revenue available for debt service (defined as operating and nonoperating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.25 times the maximum annual debt service (see statistical section). The City complies with bond covenants, with a current ratio coverage of

7.07%. There are numerous limitations and restrictions contained in the various bond indentures. The City is in compliance with all debt covenants.

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

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

Notes payable

The City is liable for a note that was entered into for the purchase the Big Rock Garden Nursery property. This note is considered an obligation of the general government and is being repaid from general governmental revenue sources.

Notes payable debt outstanding December 31, 2019					
Name of issuance/purpose	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
Big Rock Garden property purchase	\$ 225,000	12/31/92	12/31/22	7.00%	\$ 48,471
Total notes payable outstanding	<u>\$ 225,000</u>				<u>\$ 48,471</u>

Notes payable annual debt service requirements to maturity			
Year ending December 31	Governmental activities		
	Principal	Interest	Total requirement
2020	\$ 15,047	\$ 2,916	\$ 17,963
2021	16,135	1,829	17,964
2022	17,289	662	17,951
Total	<u>\$ 48,471</u>	<u>\$ 5,407</u>	<u>\$ 53,878</u>

Government loans

The City has received government loans to provide for construction of capital projects. The City’s current loan agreements are with the Public Works Trust Fund (PWTF) through Washington State Department of Community Development, Economic Development Investment (EDI) program through Whatcom County, Washington State Water Pollution Control Revolving Fund though the Department of Ecology (DOE), Office of Safe Drinking Water through the Department of Health (DOH) and the Washington State Certificate of Participation (COP) program.

The governmental activity loans are obligations of the general government and will be paid with general governmental revenue sources. The business-type activity loans will be paid from the applicable proprietary fund. The business-type PWTF loan and the DOH loan are being repaid from the *Water fund*. The *Surface and Stormwater fund* is repaying five DOE loans and one EDI loan. The *Wastewater fund* will be repaying one DOE loan.

Government loan debt outstanding December 31, 2019

Name of issuance/purpose	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
Governmental activities					
PWTF - Street Resurfacing	\$ 2,975,000	07/25/02	07/01/22	0.50%	\$ 473,805
2014 WA State COP - Six Ambulances	867,507	08/28/14	06/01/24	2.13%	487,703
2015 WA State COP - LED Lights	3,205,000	09/24/15	12/01/27	2.70%	2,350,000
Total governmental activities	7,047,507				3,311,508
Business-type activities					
PWTF Water Main Replacement	1,938,000	07/25/02	07/01/22	0.50%	306,850
DOH Water Pre-treatment Plant	10,652,884	05/27/15	10/01/34	1.50%	10,722,100
EDI North End Regional Stormwater Facility	1,675,000	12/18/15	12/18/22	1.00%	732,167
DOE L1200033 Padden Creek Daylighting	1,426,000	05/10/13	12/31/36	2.60%	1,224,436
DOE L1300017 Squalicum Crk Reroute Ph I	528,632	07/01/15	12/31/36	2.70%	469,795
DOE L1400010 Squalicum Crk Reroute Ph II	543,536	07/01/15	12/31/36	2.30%	487,385
DOE L1400025 Texas/Columbia Storm Mains	1,414,000	12/31/14	12/31/23	1.10%	1,102,644
DOE EL160594 Squalicum Crk Reroute Ph III	93,289	11/09/16	12/31/38	2.40%	93,289
DOE EL190008 Roeder Lift Station Imprv	305,017	06/01/18	10/01/40	1.50%	305,017
Total business-type activities	18,576,358				15,443,683
Total governmental loans outstanding	<u>\$ 25,623,865</u>				<u>\$ 18,755,191</u>

Government loan annual debt service requirements to maturity

Year ending December 31	Governmental activities			Business-type activities		
	Principal	Interest	Totals	Principal	Interest	Total requirements
2020	\$ 495,971	\$ 121,560	\$ 617,531	\$ 1,484,322	\$ 236,961	\$ 1,721,283
2021	515,486	103,755	619,241	1,493,911	225,372	1,719,283
2022	530,232	84,969	615,201	1,529,331	211,887	1,741,218
2023	392,287	65,440	457,727	1,015,621	199,639	1,215,260
2024	402,532	53,307	455,839	873,790	167,262	1,041,052
2025-2029	975,000	66,706	1,041,706	4,342,907	617,761	4,960,668
2030-2034	-	-	-	4,403,419	253,298	4,656,717
2035-2039	-	-	-	282,121	29,689	311,810
2040	-	-	-	18,261	207	18,468
Total	<u>\$ 3,311,508</u>	<u>\$ 495,737</u>	<u>\$ 3,807,245</u>	<u>\$ 15,443,683</u>	<u>\$ 1,942,076</u>	<u>\$ 17,385,759</u>

The following table is a summary of the changes in long-term liabilities for the year ended December 31, 2019. The portion of the long-term debt due within one year is noted in the table on the far right and is broken out on the Statement of Net Position from the rest of the long-term debt balance. The City of Bellingham did not enter into any short-term debt activity during the year nor does it have any short-term debt outstanding at year-end.

Summary of changes in long-term liabilities for the year ended December 31, 2019						
Debt type	Beginning balance	Additions	Reductions	Ending balance	Due in ≤ 1 year	Due in > 1 year
Governmental activities						
Bonds payable						
General obligation bonds	\$ 17,190,000	\$ -	\$ (1,350,000)	\$ 15,840,000	\$ 1,460,000	\$ 14,380,000
Premium	1,534,916	-	(163,619)	1,371,297	-	1,371,297
Taxable energy conservation bonds	6,100,000	-	-	6,100,000	-	6,100,000
Total bonds payable	24,824,916	-	(1,513,619)	23,311,297	1,460,000	21,851,297
Government loans	3,844,691	-	(533,183)	3,311,508	495,971	2,815,537
Premium	321,505	-	(41,807)	279,698	-	279,698
Total government loans	4,166,196	-	(574,990)	3,591,206	495,971	3,095,235
Notes payable	62,504	-	(14,033)	48,471	15,047	33,424
Claims and litigation	951,382	923,842	(787,218)	1,088,006	763,006	325,000
Pollution remediation obligation	25,050,000	-	-	25,050,000	-	25,050,000
Net pension liability, state	14,866,823	-	(3,166,672)	11,700,151	-	11,700,151
OPEB liability	32,490,694	-	(4,124,539)	28,366,155	-	28,366,155
Total pension liability, local	6,221,967	127,026	-	6,348,993	-	6,348,993
Compensated absences	6,478,873	372,904	(151,011)	6,700,766	5,651,846	1,048,920
Governmental activities long-term liabilities	\$ 115,113,355	\$ 1,423,772	\$ (10,332,082)	\$ 106,205,045	\$ 8,385,870	\$ 97,819,175
Business-type activities						
Bonds payable						
Revenue bonds	\$ 60,104,000	\$ -	\$ (1,368,000)	\$ 58,736,000	\$ 1,417,000	\$ 57,319,000
Premium	2,949,993	-	(148,502)	2,801,491	-	2,801,491
Total revenue bonds	63,053,993	-	(1,516,502)	61,537,491	1,417,000	60,120,491
General obligation bonds	3,940,000	-	(495,000)	3,445,000	520,000	2,925,000
Premium	208,048	-	(29,721)	178,327	-	178,327
Total general obligation bonds	4,148,048	-	(524,721)	3,623,327	520,000	3,103,327
Total bonds payable	67,202,041	-	(2,041,223)	65,160,818	1,937,000	63,223,818
Government loans	15,345,888	1,493,611	(1,395,815)	15,443,684	1,484,322	13,959,362
Pollution remediation obligation	10,129,442	4,277,836	(4,871)	14,402,407	1,020,686	13,381,721
Net pension liability, state	3,054,007	-	(861,202)	2,192,805	-	2,192,805
Compensated absences	1,020,773	82,189	(50,542)	1,052,420	988,793	63,627
Total business-type activities long-term liabilities	\$ 96,752,151	\$ 5,853,636	\$ (4,353,653)	\$ 98,252,134	\$ 5,430,801	\$ 92,821,333

Internal service funds predominantly serve the governmental funds. Accordingly, long-term and short-term liabilities are included as part of the above totals for governmental activities. At year-end, long-term liabilities of \$63,518 and short-term liabilities of \$510,042 for internal service fund compensated absences are included in the above amounts. For the governmental activities, compensated absences are generally liquidated by the *General fund*.

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

Pollution remediation in business-type activities is financed by *Solid Waste fund* revenues.

Discretely presented component units

Bellingham-Whatcom Public Facilities District

The *PFD* entered into an agreement with the City of Bellingham to borrow funds from the City’s 2004 LTGO PFD/Civic/Aquatic refunding bond. Of the total \$16,375,000 bond issue, \$9,370,000 was for the *PFD* to fund the construction of the Whatcom Art and Children’s Museum. In 2012 the City of Bellingham advanced refunded the 2004 LTGO bond with the issuance of the 2012 LTGO Refunding bond. The *PFD* pays the debt service costs on its portion of the bond. The *PFD* portion of the bond matures in 2026. The City made a contingent loan commitment for these bonds per contract 2007-0552. The contingent loan commitment established in contract 2007-0552 was superseded with interlocal financing agreement 2016-0268 between the City and the *PFD* in 2016.

The *PFD* entered into an agreement with the City of Bellingham in 2008 to borrow \$2,800,000 for the purpose of funding the construction of the Whatcom Art and Children’s Museum. This loan had a 10-year term with interest only payments for the first five years. In 2010, the *PFD* made an unscheduled \$1,000,000 principal payment, reducing the outstanding principal amount to \$1,800,000. In 2013 the loan was restructured, setting an interest rate of 3.25% and extending the loan term to mature on December 31, 2027.

The *PFD* issued a limited sales tax obligation bond in the amount of \$9,995,000 on December 20, 2007. The issue funded a portion of the construction cost of the Whatcom Art and Children’s Museum, a portion of the cost of phase II renovations to the Mount Baker Theatre as part of the regional center owned and operated by the *PFD*, and issue costs of the bonds. On April 20, 2016, these bonds were refunded by the City of Bellingham and reissued as LTGO debt of the City of Bellingham with a new interlocal bond agreement between the City and the *PFD* establishing new repayment terms. These bonds are financed by state sales tax rebate revenue and will mature in 2027.

Bonds outstanding December 31, 2019					
Name of issuance/purpose	Original issue amount	Issue date	Maturity date	Interest rates	Debt outstanding
12 LTGO Rfdg Museum/Theater	\$ 9,370,000	11/9/04	12/1/28	2.00 - 4.00%	\$ 4,955,382
08 Museum Construction	2,800,000	12/31/08	12/31/27	3.25%	1,127,225
16 LTGO Rfdg Museum/Theater	9,640,000	04/20/16	12/01/27	.60 - 4.00%	8,665,000
Total bonds outstanding	<u>\$ 21,810,000</u>				<u>\$ 14,747,607</u>

Limited sales tax annual debt service requirements to maturity

Year ending December 31	Discretely presented component unit		
	Principal	Interest	Total requirements
2020	\$ 1,363,886	\$ 529,455	\$ 1,893,341
2021	1,501,322	472,318	1,973,640
2022	1,633,518	417,522	2,051,040
2023	1,775,854	358,336	2,134,190
2024	1,922,959	285,431	2,208,390
2025-2027	6,550,068	374,293	6,924,361
Total	<u>\$ 14,747,607</u>	<u>\$ 2,437,355</u>	<u>\$ 17,184,962</u>

Summary of changes in long-term liabilities for the year ended December 31, 2019

Debt type	Beginning balance	Additions	Reductions	Ending balance	Due in ≤ 1 year	Due in > 1 year
Bonds	\$ 15,999,376	\$ -	\$ (1,251,769)	\$ 14,747,607	\$ 1,363,886	\$ 13,383,721
Total long-term liabilities	\$ 15,999,376	\$ -	\$ (1,251,769)	\$ 14,747,607	\$ 1,363,886	\$ 13,383,721

11. Restricted component of net position

The government-wide statement of net position reports \$165,700,653 of restricted component of net position, of which \$85,394,145 is restricted by enabling legislation.

12. Risk management

The City is exposed to various risks of losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has established four risk management internal service funds to account for and finance general liability, property damage, and risks to employee health and welfare. The City's four funds are *Claims and Litigation*, *Unemployment Compensation*, *Workers' Compensation*, and *Health Benefits*.

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

The *Claims, Litigation and Property Loss fund* is the source for payment of third-party claims and judgments, excess liability insurance premiums, and property insurance premiums. Currently the City maintains commercial property insurance for fire and other hazards on City properties. During the current and preceding two years, no City property losses exceeded the City's insurance coverage.

The City purchases excess liability insurance with a \$1 million retained self-insurance limit and \$15 million in policy limits. The City Council has established by Ordinance No. 2002-03-018 a goal of \$5 million as the minimum amount to be made available to cover losses.

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

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

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

The Health Benefits fund is the source for collecting contributions and paying premiums for employee medical, dental, and vision benefits. Both the City and employee contribute to the cost of medical insurance premiums. The City alone contributes towards dental insurance and a self-insured vision plan for full time employees. City departments are charged composite rates to cover the cost of insurance premiums and plan contributions for each employee. Insurance for employees is purchased through employee unions and City Sponsored benefit plans. The Association of Washington City's Employee Benefit Trust is one of the third-party administrators the City uses to purchase insurance and administer plans.

Health and Welfare

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

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

As of December 31, 2019, 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Changes in estimated claims liabilities

	Claims and Litigation		Unemployment Comp		Workers' Comp	
	2018	2019	2018	2019	2018	2019
Beginning liability	\$ 455,767	\$ 525,000	\$ 160,000	\$ 84,900	\$ 550,000	\$ 341,482
Claims incurred	321,551	570,503	(77,063)	65,336	(47,775)	288,003
Claims paid	(252,318)	(415,436)	1,963	(69,559)	(160,743)	(302,223)
Ending liability	<u>\$ 525,000</u>	<u>\$ 680,067</u>	<u>\$ 84,900</u>	<u>\$ 80,677</u>	<u>\$ 341,482</u>	<u>\$ 327,262</u>

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

13. Contingencies

Cleanup contingencies - The City of Bellingham (the City) has been named as a potentially liable person (PLP) (as that term is defined in the Model Toxics Control Act) by the Washington State Department of Ecology (DOE) with respect to several cleanup sites. Cleanup at these sites is in a variety of stages, from investigation to post-construction monitoring and maintenance. For most of these sites, the City is eligible for, and has received or hopes to receive, 50% matching funds from DOE for the cleanups. At several of the sites, the City is not the only PLP and is in, or plans to be in, negotiation with the other PLPs as to each party's responsibility to fund the remedial actions. The City has issued two general obligation bonds for the City's share of remediation costs to be repaid primarily by net revenues from the *Solid Waste fund*. These revenues are generated principally by tax revenues paid by the City's solid waste contractor. The *Solid Waste fund's* projected cash flow indicates sufficient net revenue to repay the existing estimated principal and interest costs over a twenty-year period. See Note 14 for additional detail about the current estimated costs.

Grant contingencies - The City participates in federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. There are no known or estimated liabilities as the result of these audits as of year-end.

14. Pollution remediation obligations

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

As projects move from the feasibility stage to the cleanup action plan phase and on to design phase and/or when the City receives updated cost-forecast estimates from consultants for remediation sites, the estimated pollution remediation obligation balances are updated to reflect the revised estimates. The pollution remediation obligation is an estimate subject to changes resulting from price increases or reductions, technology, and changes in applicable laws and regulations.

This schedule reflects the estimated pollution remediation obligations for the five named sites as of December 31, 2019:

Estimated pollution remediation obligations		
Site	Governmental activities	Business-type activities
South State Street Manufacturing Gas Plant (f.k.a Boulevard Park)	\$ 9,330,000	\$ -
Cornwall Avenue Landfill Site	-	11,238,768
RG Haley Site	15,720,000	-
Eldridge Avenue Municipal Landfill	-	141,942
Central Waterfront	-	2,763,708
Total	\$ 25,050,000	\$ 14,144,418

In 2005, the City and the Port of Bellingham (the Port) entered into an agreement to clean up the Central Waterfront and Cornwall sites and the City prefunded its share of that original estimate by paying the Port \$3.7 million upfront. Of this \$3.7 million prepayment, \$1.44 million was allocated to Cornwall and \$2.26 million was allocated to Central Waterfront. As of December 31, 2019, total accumulated expenses for these sites have exceeded the prepayment amount by \$257,990, and the City no longer reports a prepaid asset.

South State Street Manufactured Gas Plant site (SSMGP) – Remediation is required to clean up contamination from the use of this site for the manufacturing of gas from coal. The current estimated cost of remediation is \$9.3 million based on a draft feasibility study prepared by GeoEngineers. The City is negotiating for financial contributions from other potentially liable persons. A final RI/FS was issued in January 2019.

Cornwall Avenue Landfill site – Remediation is required to clean up contamination from the use of this site as a landfill for solid waste. In 2005, the City and the Port of Bellingham entered into an agreement to clean up this site. A RI/FS was prepared and issued for the Cornwall Avenue Landfill Site in December 2013. The Consent Decree for the Cornwall Avenue Landfill Site was signed in December 2014 and dictates the cleanup that will be constructed. Anchor QEA consulting provided the City (and the Port, another PLP) with a revised report of the estimated cost-forecasts as of December 31, 2019. The Cornwall Avenue Landfill site estimated costs have increased since the issuance of the RI/FS in 2013 after taking into account an escalation rate inflator and adding additional project contingency costs and the completion of 30% design in the 2019 Engineering and Design Report. The balance of the City's pollution remediation obligation related to the Cornwall Avenue Landfill site is \$11.2 million.

RG Haley site – Remediation is required to clean up contamination from the use of this site as a wood treatment facility and from cross contamination from garbage landfill activities on the adjacent property, which is part of the Cornwall Avenue Landfill Site. A final RI/FS was prepared and issued for RG Haley on February 1, 2016, and a final Cleanup Action Plan was issued in April 2018. The estimated pollution remediation obligation for the RG Haley site is \$15.7 million.

Eldridge Avenue Municipal Landfill – Remediation was required to clean up contamination from the use of this site as a landfill for garbage. Construction of the cleanup is complete. Monitoring and maintenance activities pursuant to the Consent Decree are the remaining remediation obligations. The year-end estimate for those activities as of December 31, 2019, is \$141,942.

Central Waterfront – Remediation is required to clean up contamination from the use of this area as a landfill for solid waste, as well as other contaminants from adjoining sites, which were consolidated with the City's Roeder Avenue Landfill Site by Ecology. The Central Waterfront pollution remediation obligation was decreased compared to the prior year estimate due to the identified preferred alternative selected

in the RI/FS for site cleanup in the upland region, which was issued in 2018. Updated cost estimates are based on forecasts prepared by Anchor QEA consulting as of December 31, 2019. The pollution remediation obligation estimate is \$2.8 million for Central Waterfront.

15. Interlocal agreements

Whatcom Medic One

In November 2005, Whatcom County voters approved a ballot proposition authorizing the County to collect 1/10th of one percent sales tax for the purposes of supporting countywide emergency medical and law enforcement services. One-third of this tax remains with the county/cities for law enforcement and two-thirds of this tax is remitted to the County to be used for countywide emergency medical services. The City of Bellingham has a contract with the County to provide ambulance service in certain areas of the county.

What-Comm/Prospect Communications Center

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

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

The City operates and manages the communications centers under advisement of an administrative board composed of eight voting members and one nonvoting member. The administrative board has the authority to establish broad policy guidelines and establishes the annual financial contributions to be made by the member jurisdictions. In 2019, the City contributed \$1,122,183 to the Public Safety Dispatch fund as its share of operations, approximately 18% of total revenues.

Waterfront redevelopment

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

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

The City of Bellingham, Whatcom County, and the Lake Whatcom Water and Sewer District (LWWS) came together in 1998 to formalize, by interlocal agreement, the Lake Whatcom Management Program. The goal of the program is to improve lake water quality by jointly implementing programs affecting the Lake Whatcom Watershed. In 2010 the LWMP 2010-2014 work plan was adopted which included several capital projects all three entities committed to completing. In this timeframe the Aquatic Invasive Species (AIS) Prevention Program was also launched as a joint program funded by LWWS, Whatcom County, the City, and program fees. The City, County, and LWWS have all agreed through the interlocal agreement to commit funds towards land preservation, stormwater management, land use, education and engagement, monitoring and data, hazardous materials mitigation, recreation, AIS, utilities and

transportation, and administration. The 2015-2019 work plan cost estimates for the LWMP included contributions totaling \$45.7 million between the City, County, and LWWSD over the five-year period.

In 2019 the City contributed \$128,585 towards the AIS program, LWWSD contributed \$50,000, the County contributed \$123,000, and programs revenues were \$155,771.

Fire District No. 8

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

In 2016, Whatcom County Fire Protection District No. 8 and the City of Bellingham entered into a new interlocal agreement, 2016-0336, for the provision of fire and emergency medical services (EMS). The parties have a long-term relationship for providing mutual and automatic aid in the delivery of fire and EMS and wish to evaluate consolidation options, and if appropriate, plan for a longer-term consolidation, including consideration of a Regional Fire Authority.

In 2019, Fire District No. 8 paid the City \$1,398,550 for providing these services.

Park Districts Loan

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

The specific terms and conditions of the loan repayment are included in Interlocal agreement #2013-0624 which was signed at the end of 2013. In this agreement the Park District agreed to begin making payments to the City to pay off the loan of \$3,232,022, \$100,335 of accrued interest on the loan through June 30, 2014, and future interest on the loan after June 30, 2014. The District has levied a \$0.28 per thousand dollars of assessed valuation to repay the *Greenways Endowment fund* for this land purchase. The Park District made principal payments of \$511,761 in 2019. As of December 31, 2019, the loan balance is \$1,255,072.

16. Endowments

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

On May 16, 2006, the voters passed a ballot authorizing the City to increase its regular property tax levy in 2007 to \$2.49 per thousand (which included \$0.057 per thousand from the beyond greenways levy) of

assessed valuation on all taxable property within the City. The ballot specified increases in 2008 and each of the nine succeeding years as allowed by RCW 84.55 to be used for the costs of parks, greenways, trails, and open space property acquisition, development, and maintenance. The City created the *Greenways III fund* with ordinance 2007-01-004 to account for the property tax levy receipts. These receipts are to be used for acquisition and development/improvement of property.

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

The interest earned within the *Greenways Maintenance Endowment fund* is transferred when needed. It helps pay for parks and recreation department maintenance of properties acquired and developed with Greenway levy funding.

As of December 31, 2019, a total of \$5,939,391 in property taxes and donations has been receipted into the endowment fund and is nonspendable. All interest earned in this fund has been spent.

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

According to the terms of the agreement, the corpus (or original lump payment received) cannot be expended for 50 years. Only the interest earned by that corpus or any other outside revenues received (such as donations) may be expended for (a) or (b) as defined above. As of December 31, 2019, \$870,888 is available to spend.

The fund balance of the endowment fund is reflected in the governmental portion of the statement of net position and the statement of activities. Washington State authorizes the spending of net appreciation on investments of endowments in RCW 24.44.020. Investments for the endowment funds meet the same criteria as other City funds. The City's investment risk is described in Note 3.

17. Pension plans**Aggregate pension amounts for state and local pension plans as of 12/31/2019**

Pension liabilities	\$ 20,241,949
Pension assets	\$ 26,122,528
Deferred outflows of resources	\$ 7,454,088
Deferred inflows of resources	\$ 17,107,403
Pension expense/expenditures	\$ 2,249,604

A. State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

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

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The City's actual PERS plan contributions were \$1,899,391 to PERS Plan 1 and \$2,933,273 to PERS Plan 2/3 for the year ended December 31, 2019.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

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

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% as of July 1, 2019.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2019		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

LEOFF Plan 2		
July – December 2019		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities	8.59%	
Administrative Fee	0.18%	
Total	8.77%	8.59%

The City's actual contributions to the plan were \$1,712,186 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2019, the state contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,121,252.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

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

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate

minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

Plan	1% Decrease 6.40%	Current Discount Rate 7.40%	1% Increase 8.40%
PERS 1	\$ 13,155,714	\$ 10,505,087	\$ 8,205,319
PERS 2/3	\$ 25,983,608	\$ 3,387,869	\$ (15,153,429)
LEOFF 1	\$ (4,273,482)	\$ (5,223,965)	\$ (6,044,617)
LEOFF 2	\$ (3,885,925)	\$ (20,898,563)	\$ (34,784,770)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the City reported a proportionate share of net pension liabilities and assets as follows:

Plan	Liability (Asset)
PERS 1	\$ 10,505,087
PERS 2/3	3,387,869
TOTAL LIABILITY	\$ 13,892,956
LEOFF 1	\$ (5,223,965)
LEOFF 2	(20,898,563)
TOTAL ASSET	\$ (26,122,529)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability asset, the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate	\$ 5,223,965	\$ 20,898,563
State's proportionate	35,334,773	13,685,759
TOTAL	\$ 40,558,738	\$ 34,584,322

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

Plan	Proportionate Share 6/30/2018	Proportionate Share 6/30/2019	Change in Proportion
PERS 1	0.271961%	0.273189%	0.001228%
PERS 2/3	0.338229%	0.348783%	0.010554%
LEOFF 1	0.261836%	0.264289%	0.002453%
LEOFF 2	0.881963%	0.902086%	0.020123%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions, and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the City's recognized pension expense is as follows:

Plan	Pension Expense
PERS 1	\$ 537,252
PERS 2/3	716,699
LEOFF 1	(314,685)
LEOFF 2	364,009
TOTAL	\$ 1,303,275

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 701,828
Contributions subsequent to the measurement date	922,533	-
TOTAL	\$ 922,533	\$ 701,828

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 970,632	\$ 728,373
Net difference between projected and actual investment earnings on pension plan investments	-	4,931,357
Changes of assumptions	86,752	1,421,437
Changes in proportion and differences between contributions and proportionate share of contributions	302,806	218,286
Contributions subsequent to the measurement date	1,510,077	-
TOTAL	\$ 2,870,268	\$ 7,299,453
LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 541,568
TOTAL	\$ -	\$ 541,568
LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,503,838	\$ 375,811
Net difference between projected and actual investment earnings on pension plan investments	-	4,284,859
Changes of assumptions	34,429	2,351,758
Changes in proportion and differences between contributions and proportionate share of contributions	369,656	860,465
Contributions subsequent to the measurement date	830,941	-
TOTAL	\$ 2,738,864	\$ 7,872,893
TOTAL ALL STATE PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,474,471	\$ 1,104,185
Net difference between projected and actual investment earnings on pension plan investments	-	10,459,612
Changes of assumptions	121,181	3,773,194
Changes in proportion and differences between contributions and proportionate share of contributions	672,462	1,078,751
Contributions subsequent to the measurement date	3,263,551	-
TOTAL	\$ 6,531,665	\$ 16,415,742

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent of the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2	TOTAL
2020	\$ 154,932	\$ 1,508,582	\$ 125,791	\$ 1,171,340	\$ 2,960,645
2021	366,990	2,529,659	277,256	2,228,737	5,402,642
2022	130,964	1,121,159	100,608	1,041,618	2,394,349
2023	48,942	599,438	37,914	587,206	1,273,499
2024	-	254,450	-	243,876	498,326
Thereafter	-	(74,026)	-	692,193	618,167
Total	\$ 701,828	\$ 5,939,262	\$ 541,568	\$ 5,964,970	\$ 13,147,628

B. Local Sponsored Pension Plans***City of Bellingham Firefighters' (FFP) and Police Officers' Pension (POP) Plans****Plan description*

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

Board membership

The FFP is administered by a fire pension board comprised of the city council finance committee chairperson, the mayor, the finance director, two active members of the plan, and an alternate firefighter.

The POP is administered by a police pension board comprised of the president of the city council, the mayor, the finance director, and three active members of the plan.

Summary of significant accounting and funding policies

Both plans are closed to new participants, no longer have any active employees and are no longer receiving employee nor employer contributions. Pension benefits have been pre-funded with employer contributions however the accumulated assets do not meet the irrevocable, dedicated, and legally protected requirements provided for under paragraph 4 of GASB 73.

Plan benefits

The City's obligation under the plans consists of paying full benefits, including payment to beneficiaries, for members who retired prior to March 1, 1970, and partial or excess benefits over LEOFF Plan I benefits for those members who retired or will retire after March 1, 1970. Pension benefits are tied to the current employee pay rates including cost of living adjustments. Benefits are calculated at 2% per year of service and on the average final compensation for the last two years of credited service. Each member in service on March 1, 1970, receives the greater of benefit payable under the DRS LEOFF Plan I system or the benefits available under the old law. Where benefits under the old law exceed those under LEOFF Plan I, the excess benefits are paid by the pension fund of the City employing them on March 1, 1970. There were no changes in benefit provisions in the current year.

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

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

Plan Membership

	FFP 12/31/19	POP 12/31/19
Active employees	0	0
Total number retirees	15	10
Total number beneficiaries	17	0
Total number participants	32	10
Average retiree age	80.1	79.4
Average beneficiary age	84.8	0.0
Average retiree monthly benefit	\$1,113	\$783
Average beneficiary monthly benefit	\$1,293	\$0

Actuarial methods and assumptions

Actuarial valuations and projections of benefits for financial reporting purposes are made using estimates, methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility. The actuarial calculations of the plans reflect a long-term perspective about the probability of events far into the future and the amounts are subject to continual revision. Both the measurement date and the actuarial valuation date of the pension liability is December 31, 2019. A full actuarial valuation is performed every two years, with the most recent valuation being performed at December 31, 2019.

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

Pension actuarial methods and assumptions for FFP and POP

Actuarial valuation date	12/31/2019
Actuaial measurement date	12/31/2019
Fiscal year end date	12/31/2019
Actuarial cost method	entry age normal, level % of salary
Interest rate for discounting future liabilities	2.75%
General inflation	2.5%
Payroll growth	3.0%
Mortality rates - healthy participants	RP-2014, with scale MP-2014, projected to 2024.
Mortality rates - disabled participants	RP-2014 , with scale MP-2014, projected to 2024, set forward 3 yrs.
Future COLA for city benefits	3.0%
Future COLA for LEOFF benefits	2.5%
Changes since prior valuation	Discount rate was lowered from 4% to reflect the change from prefunded reporting under GASB 68, to non prefunded reporting under GASB 73.

*Pension expense***Pension expense for year ending 12/31/2019**

	<u>FFP</u>	<u>POP</u>
Change in total pension liability	\$ (108,239)	\$ 235,265
(Increase)/decrease in deferred outflows	152,083	85,246
Increase/(decrease) in deferred inflows	(54,857)	(80,141)
Benefit payments	598,816	118,157
Total pension expense	\$ 587,803	\$ 358,527
Interest	\$ 194,919	\$ 39,621
Recognition of assumption changes	431,186	130,762
Recognition of experience gains and losses	(38,302)	188,144
Total pension expense	\$ 587,803	\$ 358,527

*Changes in total Pension liability***Changes in total Pension liability**

	<u>FFP</u>	<u>POP</u>
Total Pension liability, 1/1/2019	\$ 5,172,371	\$ 1,049,596
Changes for the year:		
Interest cost	194,919	39,621
Differences, expected and actual experience	(124,920)	193,532
Changes in actuarial assumptions	420,578	120,269
Benefit payments, net of refunds	(598,816)	(118,157)
Net changes	(108,239)	235,265
Total Pension liability, 12/31/2019	\$ 5,064,132	\$ 1,284,861

Rate sensitivity

The following schedule presents the total pension liability and its sensitivity to calculations using discount rates that are 1% higher and 1% lower than the current rate.

Total Pension liability discount rate sensitivity

Pension Plan	1% Decrease 1.75%	Current rate 2.75%	1% Increase 3.75%
FFP	\$ 5,450,762	\$ 5,064,132	\$ 4,722,672
POP	\$ 1,259,198	\$ 1,284,861	\$ 1,081,363

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City's reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

FFP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 443,652	\$ 145,776
Changes of assumptions	205,842	154,249
TOTAL	\$ 649,494	\$ 300,025
POP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 210,660	\$ 378,035
Changes of assumptions	62,268	13,600
TOTAL	\$ 272,928	\$ 391,635
TOTAL	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 654,312	\$ 523,811
Changes of assumptions	268,110	167,849
TOTAL	\$ 922,422	\$ 691,660

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

Year ended December 31:	FFP	POP	TOTAL
2020	\$ 97,226	\$ 5,105	\$ 102,331
2021	97,226	5,105	102,331
2022	97,226	5,110	102,336
2023	97,222	(60,583)	36,639
2024	866	(73,444)	(72,578)
Thereafter	(40,297)	-	(40,297)
Total	\$ 349,469	\$ (118,707)	\$ 230,762

Pension Financial Statements

**City of Bellingham
Balance Sheet
Pension Plans
December 31, 2019**

	<u>Firefighters' Pension</u>	<u>Police Officers' Pension</u>
ASSETS		
Cash and cash equivalents	\$ 1,526,279	\$ 957,454
Investments	5,985,721	3,754,919
Total assets	<u>7,512,000</u>	<u>4,712,373</u>
LIABILITIES		
Vouchers payable	14,276	6,901
Accrued benefit payments	39,530	8,523
Total liabilities	<u>53,806</u>	<u>15,424</u>
FUND BALANCE	<u>7,458,194</u>	<u>4,696,949</u>

Pension Financial Statements

CITY OF BELLINGHAM
Statement of Revenues, Expenditures and Changes in Fund Balances
Pension Plans
For the Year Ended December 31, 2019

	Firefighters' Pension	Police Officers' Pension
REVENUES		
Contributions:		
Auction proceeds	\$ -	\$ 20,837
Fire insurance premium tax	145,766	-
Total contributions	145,766	20,837
Investment income:		
Interest	112,925	69,322
Net incr (decr) in fair value of investments	98,912	60,915
Net investment income	211,837	130,237
Total revenues	357,603	151,074
EXPENDITURES		
Benefit payments	744,582	118,157
Administrative expense	5,496	5,495
Total expenditures	750,078	123,652
Net change in fund balances	(392,475)	27,422
Fund Balance - Beginning	7,850,669	4,669,527
Fund Balance - Ending	\$ 7,458,194	\$ 4,696,949

18. Other post-employment benefits (OPEB)**Aggregate OPEB amounts - all plans as of December 31, 2019**

OPEB liabilities	\$ 28,366,155
Deferred outflows of resources	\$ -
Deferred inflows of resources	\$ 2,897,743
OPEB expense	\$ (3,252,793)

City of Bellingham Firefighters' (FHC) and Police Officers' (PHC) Health Care Plans*Plan description*

The City provides two closed single-employer defined benefit healthcare plans for firefighters' and police officers' employed prior to October 1, 1977, in accordance with the Revised Code of Washington (RCW) 41.26. The FHC and PHC plans provide LEOFF Plan 1 retired employees with lifetime medical and long-term care benefits. Dependent spouses and children are not covered. Financial reporting for both the FHC and PHC are contained solely in the basic and individual fund statements of this report.

Board membership

The FHC is administered by a fire pension board comprised of the city council finance committee chairperson, the mayor, the finance director, two active members of the plan, and an alternate firefighter.

The PHC is administered by a police pension board comprised of the president of the city council, the mayor, the finance director, and three active members of the plan.

Summary of significant accounting and funding policies

Funding for LEOFF 1 retiree healthcare costs is provided entirely by the City as required by the Revised Code of Washington (RCW) 41.26. There are no active employee nor retiree contributions. The plans are both closed to new participants.

Medical care benefits are funded on a pay-as-you-go basis as such there are no assets accumulating.

Long-term care benefits are being pre-funded with employer contributions however the accumulating assets do not meet the irrevocable, dedicated, and legally protected requirements provided for under paragraph 4 of GASB 75.

Plan benefits

The plan purchases 1 of 2 types of Premera medical insurance for plan participants depending upon the participant's age, reimburses participants for out-of-pocket medical expenses (including Medicare premiums), and pays for long-term care costs.

Plan Membership

	FHC 12/31/19	PHC 12/31/19
Active employees	0	0
Total number of participants	60	39
Average participant age	74.5	73.3

Actuarial methods and assumptions

Actuarial valuations and projections of benefits for financial reporting purposes are made using estimates, methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility. The actuarial calculations of the plans reflect a long-term perspective about the probability of events far into the future and the amounts are subject to continual revision. Both the measurement date and the actuarial valuation date of the OPEB liability is December 31, 2019. A full actuarial valuation is performed every two years, with the most recent valuation being performed at December 31, 2019.

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

OPEB actuarial methods and assumptions for FHC and PHC	
Actuarial valuation date	12/31/2019
Actuarial measurement date	12/31/2019
Fiscal year end date	12/31/2019
Actuarial cost method	entry age normal, level % of salary
Interest rate for discounting future liabilities	2.75% per yr., based on all yrs. discounted at municipal bond rate (bond buyer 20-bond GO index as of the measurement date).
General inflation	2.5% per yr.
Payroll growth	3.0% per yr.
Annual premium rate	6.2% in 2020 decreasing .1% each yr. thereafter.
Mortality rates - healthy participants	RP-2014, with scale MP-2014, projected to 2024.
Mortality rates - disabled participants	RP-2014, with scale MP-2014, projected to 2024, set forward 3 yrs.
Long-term care costs	Current costs were used for retirees receiving LT care. For all others, costs were assumed at \$63,749 per yr. in 2020, with an average duration of 2.2 yrs.
Health care reimbursements	Average of the prior 3 yrs. annual reimbursements by individual were valued, increased with health care trend to 2020.
Changes since prior valuation	The interest rate for discounting future liabilities was changed to reflect current municipal bond rates. Premium increase rates were modified to better reflect anticipated experience. LT care cost assumptions were revised. Health care reimbursement assumptions were revised.

*OPEB expense***OPEB expense for year ending 12/31/2019**

	<u>FHC</u>	<u>PHC</u>
Change in total OPEB liability	\$ (3,795,296)	\$ (329,243)
Increase/(decrease) in deferred inflows	(217,775)	(171,666)
Benefit payments	742,516	518,671
Total OPEB expense	<u>\$ (3,270,555)</u>	<u>\$ 17,762</u>
Interest	\$ 780,698	\$ 493,707
Recognition of assumption changes	(1,965,136)	(91,460)
Recognition of experience gains and losses	(2,086,117)	(384,485)
Total OPEB expense	<u>\$ (3,270,555)</u>	<u>\$ 17,762</u>

*Changes in total OPEB liability***Changes in total OPEB liability**

	<u>FHC</u>	<u>PHC</u>
Total OPEB liability, 1/1/2019	\$ 19,888,696	\$ 12,601,998
Changes for the year:		
Interest cost	780,698	493,707
Differences, expected and actual experience	(1,916,676)	(255,025)
Changes in actuarial assumptions	(1,916,802)	(49,254)
Benefit payments, net of refunds	(742,516)	(518,671)
Net changes	<u>(3,795,296)</u>	<u>(329,243)</u>
Total OPEB liability, 12/31/2019	<u>\$ 16,093,400</u>	<u>\$ 12,272,755</u>

Rate Sensitivity

The following schedule presents the total OPEB liability and its sensitivity to changes in the discount rate and healthcare cost trend rates.

Total OPEB liability discount rate sensitivity

OPEB Plan	1% Decrease	Current rate	1% Increase
	1.75%	2.75%	3.75%
FHC	\$ 18,077,939	\$ 16,093,400	\$ 14,418,731
PHC	\$ 13,794,356	\$ 12,272,755	\$ 10,990,127

Total OPEB liability healthcare cost trend rate sensitivity

OPEB Plan	1% Decrease 5.3% grading down to 3.5% over 1 yr.	Current rate 6.3% grading down to 4.5% over 1 yr.	1% Increase 7.3% grading down to 5.5% over 1 yr.
FHC	\$ 14,368,864	\$ 16,093,400	\$ 18,097,404
PHC	\$ 10,951,444	\$ 12,272,755	\$ 13,809,838

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City's reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

FHC	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,186,087
Changes in actuarial assumptions	-	338,338
TOTAL	\$ -	\$ 1,524,425
PHC	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,035,675
Changes in actuarial assumptions	-	337,643
TOTAL	\$ -	\$ 1,373,318
TOTAL	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,221,762
Changes in actuarial assumptions	-	675,981
TOTAL	\$ -	\$ 2,897,743

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

Year ended December 31:	FHC	PHC	TOTAL
2020	\$ (217,775)	\$ (171,666)	\$ (389,441)
2021	(217,775)	(171,666)	(389,441)
2022	(217,775)	(171,666)	(389,441)
2023	(217,775)	(171,666)	(389,441)
2024	(217,775)	(171,666)	(389,441)
Thereafter	(435,550)	(514,998)	(950,548)
Total	\$(1,524,425)	\$ (1,373,328)	\$(2,897,753)

OPEB Financial Statements

City of Bellingham
Balance Sheet
OPEB Plans
December 31, 2019

	Firefighters' Healthcare	Police Officers' Healthcare
ASSETS		
Cash and cash equivalents	\$ 1,569,755	\$ 984,344
Investments	6,156,224	3,860,373
Receivables, net	29,477	-
Prepaid items	30,653	17,862
Total assets	<u>7,786,109</u>	<u>4,862,579</u>
LIABILITIES		
Vouchers payable	32,659	32,241
Total liabilities	<u>32,659</u>	<u>32,241</u>
FUND BALANCES	<u>\$ 7,753,450</u>	<u>\$ 4,830,338</u>

OPEB Financial Statements

CITY OF BELLINGHAM

Statement of Revenues, Expenditures and Changes in Fund Balances

OPEB Plans

For the Year Ended December 31, 2019

	Firefighters' Healthcare	Police Officers' Healthcare
REVENUES		
Contributions:		
Property taxes	\$ 2,493,262	\$ -
General fund	205,220	1,344,780
Total contributions	2,698,482	1,344,780
Investment income:		
Interest	76,193	52,554
Net incr (decr) in fair value of investments	80,237	53,894
Net investment income	156,430	106,448
Total revenues	2,854,912	1,451,228
EXPENDITURES		
Participant reimbursements	200,546	179,857
Medical insurance	541,970	305,276
Administrative expense	86,606	82,475
Total expenditures	829,122	567,608
Net change in fund balances	2,025,790	883,620
Fund Balance - Beginning	5,727,660	3,946,718
Fund Balance - Ending	\$ 7,753,450	\$ 4,830,338

19. Tax abatements

The City provides tax abatements under two programs: Multifamily Housing, and an Urban Village Business and Occupation (B&O) phased tax credit.

The Multifamily Housing program was established under RCW 84.14 and municipal code chapter 17.82. The program is used to encourage increased residential opportunities, including affordable housing opportunities, in cities that are required to plan or choose to plan under the growth management act within urban centers, and to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing in urban centers. To be eligible for this program the housing project must be located within a targeted residential area, not displace existing residential tenants, include at least four units of multifamily housing and at least 50 percent of the space for multifamily housing must be provided for permanent residential occupancy. The program provides an exemption from ad valorem property taxation for 8 or 12 years for the value of new housing construction, conversion, and rehabilitation improvements that qualify under the program. To qualify for the 12 year exemption the applicant must commit to renting or selling at least 20 percent of the multi-unit housing units as affordable housing units. The owner must continue to comply with the requirements of the program and is subject to a compliance review annually. If it is determined the owner is not complying with the terms of the contract, the tax exemption will be cancelled. The City currently has agreements with ten property owners that qualify under the program for a total property tax valuation of \$73,478,708 and an estimated tax abatement of \$162,185 for fiscal year 2019.

The Urban Village B&O phased tax credit was established under municipal code chapter 6.04.105. New businesses and branches that locate in Downtown, Old Town, Waterfront, Samish Way or the Fountain District are eligible for a graduated tax credit of 90% for the first year, 75% for the second year, and 50% for the third year of operations for all Business and Occupation taxes due to the City. The business owner must submit an application and receive approval from the Finance Director for the credit. If the owner relocates the business outside the eligible urban village within three years of the effective date of the credit, the total amount of taxes for which the credit has been claimed for current and prior reporting periods shall be immediately due. The City currently has fourteen agreements with businesses in this program. B&O tax payments are considered confidential information and are not disclosable to unauthorized individuals per RCW 82.32.330(6) and 19.02.115(5).

20. Closed funds

Fund 113 – Paths and Trails Reserve - In 1975, the City of Bellingham passed Ordinance 8356 creating the Paths & Trails Reserve. This fund was created to account for the one-half of one percent of motor vehicle fuel taxes received by the Street fund used to establish and maintain paths and trails for bicyclists, equestrians and pedestrians. In 2019, the accounting for this revenue was consolidated into the Street fund. On May 20, 2019, the Bellingham City Council passed Ordinance 2019-05-017, dissolving the Paths & Trails Reserve fund. The residual cash in the fund was transferred to the *Street fund*.

Fund 134 – Olympic-Whatcom Falls Park Addition - In 2006, the City of Bellingham created the *Olympic-Whatcom Falls Park fund* for the purpose of accounting for the settlement funds received from the Olympic-Whatcom Falls Park Addition property settlement. All proceeds placed in the fund have been disbursed. On December 16, 2019, the Bellingham City Council passed Ordinance 2019-12-043, dissolving the Olympic-Whatcom Falls Park Addition fund. The residual cash in the fund was transferred to the *Greenways fund*.

21. Implementation of Governmental Accounting Standards Board (GASB) pronouncements

Effective for fiscal year 2019 reporting, the City adopted the following standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 84, *Fiduciary Activities*, This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

In implementing GASB 84, the City has re-evaluated the reporting of local Pension funds as fiduciary activities under GASB 68 for pension in trust equivalent arrangements and has opted to begin reporting under GASB 73 for pension in non-trust arrangements. The pension funds are now reported in the General Fund. The remaining fiduciary activities are custodial in nature and are reported in the basic financial statements.

Statement No. 73, *Accounting and Financial reporting for pensions and relates assets that are not within the scope of GASB Statements 68, and amendments to certain provisions of GASB statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The Pension funds are now reported as part of the general fund and the disclosures required under GASB 73 can be found in the notes and required supplementary information of this report.

22. Prior period adjustments

Governmental fund statements

The city has reported a total governmental fund prior period adjustment in the amount of \$26,795,980. \$4,601,406 of the adjustment is to recognize City of Bellingham business and occupation tax revenue received January and February 2019, for December 2018 business activity. \$22,194,574 of the adjustment relates to the implementation of GASB 84 *fiduciary activities*, whereas the pension and OPEB funds had previously been reported under GASB 68 as *trust fund* fiduciary activities, the pension and OPEB funds are now reported within the general fund under GASB 73 as *non-trust fund* governmental activities.

Proprietary fund statements

The city has reported a total proprietary fund prior period adjustment in the amount of \$81,722 to recognize City of Bellingham business and occupation solid waste utility tax revenue received January 2019, for December 2018 business activity.

Government-wide statements

The city has reported a total government-wide prior period adjustment in the amount of \$13,887,282. As previously stated above, \$26,795,980 of this amount comes from the governmental funds statements, \$81,722 from the proprietary fund statements, and \$(12,990,420) relates to removing the Pension and OPEB fund assets at the government-wide level to report a *Total Pension Liability* under GASB 73 versus the previously reported *Net Pension Liability* under GASB 68.

23. Subsequent events*COVID-19*

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

These measures are anticipated to have a significant financial impact on the city; however, the length of time these measures will be in place, and the full extent of the financial impact on the city is unknown at this time.

CITY OF BELLINGHAM
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Legal Basis
Original General Fund
For the Year Ended December 31, 2019

	2019-2020 Biennial		2019	Variance with Final Budget
	Budgeted Amounts		Actual	
	Original	Final	Amounts Legal Basis	
REVENUES				
<i>Taxes:</i>				
Property	\$ 30,603,530	\$ 30,603,530	\$ 15,250,716	\$(15,352,814)
Sales and use	36,619,673	36,538,254	18,301,614	(18,236,640)
Business	69,667,460	69,989,932	34,513,080	(35,476,852)
Other	2,250,000	2,302,000	1,125,714	(1,176,286)
Licenses and permits	1,865,800	1,842,800	908,067	(934,733)
Intergovernmental revenue	5,891,406	5,807,086	6,516,524	709,438
Charges for services	17,975,221	22,818,041	4,594,502	(18,223,539)
Fines and penalties	1,616,092	1,250,892	644,224	(606,668)
Investment income	679,424	1,646,424	985,338	(661,086)
Miscellaneous revenues	1,249,824	1,247,824	808,130	(439,694)
Total revenues	168,418,430	174,046,783	83,647,909	(90,398,874)
EXPENDITURES				
<i>Current:</i>				
General government	30,038,780	30,861,988	9,482,007	(21,379,981)
Public safety	95,050,039	100,799,770	49,656,874	(51,142,896)
Natural and economic environment	8,443,940	9,176,553	4,030,160	(5,146,393)
Social services	334,698	334,698	299,812	(34,886)
Cultural and recreation	33,324,515	33,303,514	15,530,543	(17,772,971)
<i>Debt service:</i>				
Principal	221,068	221,068	-	(221,068)
Interest and related charges	1,861	1,861	1,861	-
Capital outlay	333,000	2,468,436	-	(2,468,436)
Total expenditures	167,747,901	177,167,888	79,001,257	(98,166,631)
Revenues over (under) expenditures	670,529	(3,121,105)	4,646,652	7,767,757
OTHER FINANCING SOURCES (USES)				
Transfers out	(4,484,370)	(4,484,370)	(2,794,968)	1,689,402
Total other financing sources and (uses)	(4,484,370)	(4,484,370)	(2,794,968)	1,689,402
Net change in fund balances	(3,813,841)	(7,605,475)	1,851,684	9,457,159
Fund balances - beginning	23,438,732	29,989,313	33,686,143	3,696,830
Prior period adjustment	-	-	4,601,406	4,601,406
Fund balances - ending	\$ 19,624,891	\$ 22,383,838	\$ 40,139,233	\$ 17,755,395

CITY OF BELLINGHAM
Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balances
Differences in Actual Amounts for General Fund Legal Basis and General Fund GAAP Basis
For the Year Ended December 31, 2019

REVENUES

General Fund legal basis	\$ 83,647,909
<i>Budgeted separately and consolidated for GASB 54 reporting</i>	
Street	15,799,025
Olympic Whatcom Falls Park Addition	757
First 1/4% Real Estate Excise Tax	2,362,548
Second 1/4% Real Estate Excise Tax	2,286,991
Greenway III Levy	6,027,580
Park Impact Fees	2,770,639
Sportsplex	7,107
Firefighter's Pension	3,007,295
Police Officer's Pension	257,523
General Fund GAAP Basis	<u><u>116,167,374</u></u>

EXPENDITURES

General Fund legal basis	79,001,257
<i>Budgeted separately and consolidated for GASB 54 reporting</i>	
Street	13,946,650
Olympic Whatcom Falls Park Addition	13,606
First 1/4% Real Estate Excise Tax	1,681,131
Second 1/4% Real Estate Excise Tax	278,833
Greenway III Levy	4,753,726
Park Impact Fees	1,871,475
Firefighter's Pension	1,579,200
Police Officer's Pension	691,261
General Fund GAAP Basis	<u><u>103,817,139</u></u>

OTHER FINANCING SOURCES (USES)

General Fund legal basis	(2,794,968)
<i>Budgeted separately and consolidated for GASB 54 reporting</i>	(1,888,911)
General Fund GAAP Basis	<u><u>(4,683,879)</u></u>

NET CHANGES IN FUND BALANCES

General Fund legal basis	1,851,684
<i>Budgeted separately and consolidated for GASB 54 reporting</i>	5,814,672
General Fund GAAP Basis	<u><u>\$ 7,666,356</u></u>

Note: The funds delineated above are legally separate and budgeted individually as presented in the combining and individual fund statements. The funds are combined into general fund for GAAP basis basic financial statement reporting purposes as they may not meet the definition of special revenue funds under GASB 54.

Pension Plans

Washington State Department of Retirement Systems - PERS and LEOFF

Schedule of City's proportionate share of state net pension liability as of June 30

	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
PERS 1						
Proportionate % of NPL	0.273189%	0.271961%	0.276119%	0.283775%	0.283816%	0.292219%
Proportionate share of NPL	\$ 10,505,087	\$ 12,145,871	\$ 13,102,062	\$ 15,240,054	\$ 14,846,216	\$ 14,720,669
Covered payroll	\$ 177,565	\$ 436,049	\$ 612,179	\$ 694,726	\$ 833,860	\$ 1,081,349
Proportionate share of NPL as a % of covered payroll	5916.21%	2785.44%	2140.23%	2193.68%	1780.42%	1361.32%
Fiduciary net position (FNP)	\$ 21,448,831	\$ 20,879,474	\$ 20,700,421	\$ 20,222,944	\$ 21,451,699	\$ 23,206,738
Total pension liability (TPL)	\$ 31,953,917	\$ 33,025,345	\$ 33,802,482	\$ 35,462,999	\$ 36,297,915	\$ 37,927,408
FNP as a % of TPL	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%
PERS 2/3						
Proportionate % of NPL	0.348783%	0.338229%	0.340802%	0.346439%	0.345119%	0.347973%
Proportionate share of NPL	\$ 3,387,869	\$ 5,774,959	\$ 11,841,240	\$ 17,442,930	\$ 12,331,299	\$ 7,033,791
Covered payroll	\$ 36,405,608	\$ 35,152,185	\$ 33,482,840	\$ 32,435,206	\$ 30,696,116	\$ 29,876,074
Proportionate share of NPA as a % of covered payroll	9.31%	16.43%	35.37%	53.78%	40.17%	23.54%
Fiduciary net position (FNP)	\$ 148,343,786	\$ 130,844,961	\$ 119,283,437	\$ 105,603,698	\$ 101,851,378	\$ 97,776,269
Total pension liability (TPL)	\$ 151,731,654	\$ 136,619,920	\$ 131,124,677	\$ 123,046,628	\$ 114,182,676	\$ 104,810,059
FNP as a % of TPL	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%
LEOFF 1						
Proportionate % of NPA	0.264289%	0.261836%	0.264742%	0.263337%	0.259501%	0.254508%
Proportionate share of NPA	\$ 5,223,965	\$ 4,753,638	\$ 4,016,719	\$ 2,713,124	\$ 3,127,561	\$ 3,086,650
State proportionate share of NPA associated with City	\$ 35,334,772	\$ 32,153,488	\$ 27,168,985	\$ 18,351,505	\$ 21,154,742	\$ 20,878,024
Total proportionate share	\$ 40,558,738	\$ 36,907,126	\$ 31,185,703	\$ 21,064,629	\$ 24,282,302	\$ 23,964,674
Covered payroll	\$ 80,700	\$ 67,074	\$ 120,974	\$ 132,029	\$ 144,697	\$ 465,881
Proportionate share of NPA as a % of covered payroll	6473.34%	7087.15%	3320.31%	2054.94%	2161.45%	662.54%
Fiduciary net position (FNP)	\$ 15,933,553	\$ 15,455,480	\$ 15,186,917	\$ 14,143,483	\$ 14,558,393	\$ 14,554,819
Total pension liability (TPL)	\$ 10,709,588	\$ 10,701,842	\$ 11,170,198	\$ 11,430,358	\$ 11,430,832	\$ 11,468,169
FNP as a % of TPL	148.78%	144.42%	135.96%	123.74%	127.36%	126.91%
LEOFF 2						
Proportionate % of NPA	0.902086%	0.881963%	0.918952%	0.828452%	0.816862%	0.853588%
Proportionate share of NPA	\$ 20,898,563	\$ 17,905,772	\$ 12,752,076	\$ 4,818,525	\$ 8,395,708	\$ 11,327,480
State proportionate share of NPA associated with City	\$ 13,685,759	\$ 11,593,649	\$ 8,272,034	\$ 3,141,323	\$ 5,551,241	\$ 7,401,154
Total proportionate share	\$ 34,584,322	\$ 29,499,421	\$ 21,024,110	\$ 7,959,848	\$ 13,946,948	\$ 18,728,634
Covered payroll	\$ 31,607,756	\$ 29,121,105	\$ 28,930,093	\$ 25,125,355	\$ 23,723,220	\$ 23,786,119
Proportionate share of NPL as a % of covered payroll	66.12%	61.49%	44.08%	19.18%	35.39%	47.62%
Fiduciary net position (FNP)	\$ 128,443,199	\$ 114,704,157	\$ 108,216,955	\$ 84,590,086	\$ 80,319,337	\$ 78,963,736
Total pension liability (TPL)	\$ 107,544,636	\$ 96,798,385	\$ 95,464,878	\$ 79,771,560	\$ 71,923,629	\$ 67,636,256
FNP as a % of TPL	119.43%	118.50%	113.36%	106.04%	111.67%	116.75%

* Information is available beginning in 2014.

Pension Plans

Washington State Department of Retirement Systems - PERS and LEOFF

Schedule of contributions for the year ended December 31

Plan	Year	Statutorially required contributions	Actual contributions	Contribution deficiency (excess)	Covered Payroll	Contributions as a % of covered employee payroll
PERS 1	2014	\$ 1,314,562	\$ 1,314,562	\$ -	\$ 982,256	133.83%
	2015	1,435,640	1,435,640	-	707,036	203.05%
	2016	1,655,872	1,655,872	-	672,352	246.28%
	2017	1,853,370	1,853,370	-	510,807	362.83%
	2018	1,897,144	1,897,144	-	350,086	541.91%
	2019	1,899,391	1,899,391	-	87,421	2172.69%
PERS 2/3	2014	\$ 1,517,744	\$ 1,517,744	\$ -	\$ 30,387,959	4.99%
	2015	1,752,785	1,752,785	-	31,107,241	5.63%
	2016	2,065,838	2,065,838	-	33,206,141	6.22%
	2017	2,522,447	2,522,447	-	36,541,240	6.90%
	2018	2,747,129	2,747,129	-	36,632,138	7.50%
	2019	2,933,273	2,933,273	-	38,073,839	7.70%
LEOFF 1	2014	\$ -	\$ -	\$ -	\$ 255,654	0.00%
	2015	-	-	-	189,324	0.00%
	2016	-	-	-	83,296	0.00%
	2017	-	-	-	95,040	0.00%
	2018	-	-	-	76,487	0.00%
	2019	-	-	-	27,747	0.00%
LEOFF 2	2014	\$ 1,198,658	\$ 1,198,658	\$ -	\$ 23,735,711	5.05%
	2015	1,248,036	1,248,036	-	24,713,647	5.05%
	2016	1,352,566	1,352,566	-	26,783,467	5.05%
	2017	1,494,326	1,494,326	-	28,975,221	5.16%
	2018	1,551,353	1,551,353	-	29,441,705	5.27%
	2019	1,712,186	1,712,186	-	32,828,388	5.22%

* Information is available beginning in 2014.

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

Schedule of Changes in Total Pension Liability and Related Ratios				
Firefighters' Pension Plan	2019	2018	2017	2016
Total Pension liability				
Interest cost	\$ 194,919	\$ 166,745	\$ 211,196	\$ 184,397
Differences, expected and actual experience	(124,920)	(194,368)	-	887,308
Changes in actuarial assumptions	420,578	(128,029)	329,349	(116,456)
Benefit payments, net of refunds	(598,816)	(460,310)	(768,196)	(415,501)
Net change in total Pension liability	(108,239)	(615,962)	(227,651)	539,748
Total Pension liability - beginning	5,172,371	5,788,333	6,015,984	5,476,236
Total Pension liability - ending	\$ 5,064,132	\$ 5,172,371	\$ 5,788,333	\$ 6,015,984
Covered payroll	-	-	-	132,470
Total Pension liability as a % of covered payroll	0.00%	0.00%	0.00%	4541.39%
Police Officers' Pension Plan	2019	2018	2019	2018
Total Pension liability				
Interest cost	\$ 39,621	\$ 47,003	\$ 57,571	\$ 41,693
Differences, expected and actual experience	193,532	(529,249)	-	491,536
Changes in actuarial assumptions	120,269	15,153	90,031	(31,736)
Benefit payments, net of refunds	(118,157)	(100,144)	(131,995)	(182,997)
Net change in total Pension liability	235,265	(567,237)	15,607	318,496
Total Pension liability - beginning	1,049,596	1,616,833	1,601,226	1,282,730
Total Pension liability - ending	\$ 1,284,861	\$ 1,049,596	\$ 1,616,833	\$ 1,601,226
Covered payroll	-	-	-	45,026
Total Pension liability as a % of covered payroll	0.00%	0.00%	0.00%	3556.23%

* Information is available beginning in 2016.

Other Post Employment Benefit Plans (OPEB)*Firefighters' (FHC) and Police Officers' (PHC) Healthcare Plans***Schedule of Changes in Total OPEB Liability and Related Ratios**

Firefighters' Healthcare Plan	2019	2018
Total OPEB liability		
Interest cost	\$ 780,698	\$ 648,081
Differences, expected and actual experience	(1,916,676)	(1,524,971)
Changes in actuarial assumptions	(1,916,802)	(435,004)
Benefit payments, net of refunds	(742,516)	(804,209)
Net change in total OPEB liability	(3,795,296)	(2,116,103)
Total OPEB liability - beginning	19,888,696	22,004,799
Total OPEB liability - ending	\$ 16,093,400	\$ 19,888,696
Covered payroll	-	142,572
Total OPEB liability as a % of covered payroll	0.00%	13949.93%
Police Officers' Healthcare Plan	2019	2018
Total OPEB liability		
Interest cost	\$ 493,707	\$ 423,336
Differences, expected and actual experience	(255,025)	(1,294,595)
Changes in actuarial assumptions	(49,254)	(422,055)
Benefit payments, net of refunds	(518,671)	(431,801)
Net change in total OPEB liability	(329,243)	(1,725,115)
Total OPEB liability - beginning	12,601,998	14,327,113
Total OPEB liability - ending	\$ 12,272,755	\$ 12,601,998
Covered payroll	-	-
Total OPEB liability as a % of covered payroll	0.00%	0.00%

* Information is available beginning in 2018.

Medical care benefits are funded on a pay-as-you-go basis as such there are no assets accumulating.

Long-term care benefits are being pre-funded with employer contributions however the accumulating assets do not meet the irrevocable, dedicated, and legally protected requirements provided for under paragraph 4 of GASB 75.

The following assumptions have changed since the last measurement date: The interest rate for discounting future liabilities was changed to reflect current municipal bond rates. Premium increase rates were modified to better reflect anticipated experience. LT care cost assumptions were revised. Health care reimbursement assumptions were revised.

City of Bellingham
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
CDBG - Entitlement Grants Cluster								
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B17-B19 MC- 530010	-	1,568,730	1,568,730	1,327,582	3
Total CDBG - Entitlement Grants Cluster:				-	1,568,730	1,568,730	1,327,582	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Home Investment Partnerships Program	14.239	M17-M19 MC530204	-	455,174	455,174	379,991	3
U.S. FISH AND WILDLIFE SERVICE, INTERIOR, DEPARTMENT OF THE (via WSDOFW)	Coastal	15.630	F18AC00978	50,000	-	50,000	-	
NATIONAL PARK SERVICE, INTERIOR, DEPARTMENT OF THE (via WSDOA)	Historic Preservation Fund Grants-In-Aid	15.904	FY19-61019- 001	5,000	-	5,000	-	
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF (via WSDOC)	Violence Against Women Formula Grants	16.588	F18-31103-063	18,256	-	18,256	-	
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF (via WSDOC)	Violence Against Women Formula Grants	16.588	F18-31103-063	9,901	-	9,901	-	
Total CFDA 16.588:				28,157	-	28,157	-	

The accompanying notes are an integral part of this schedule.

City of Bellingham
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2016-WE-AX- 0021	-	137,611	137,611	-	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607	FY2017 Award	-	1,688	1,688	-	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018-DJ-BX- 0195	-	13,223	13,223	-	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017-DJ-BX- 0497	-	13,113	13,113	-	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2019-DJ-BX- 0904	-	17,595	17,595	-	
Total CFDA 16.738:				-	43,931	43,931	-	
CRIMINAL DIVISION, JUSTICE, DEPARTMENT OF	Equitable Sharing Program	16.922	WA0370100	-	21,076	21,076	-	
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	STPUS-5568 (001)/LA8502	20,728	-	20,728	-	
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	SRTS-5565 (001)/LA8919	557,985	-	557,985	-	

The accompanying notes are an integral part of this schedule.

City of Bellingham
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	STPUS-5559 (001)/LA8229	3,463	-	3,463	-	
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	STPUS-5559 (002)/LA9162	258,002	-	258,002	-	
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	RAIL-5510 (007)/LA9470	49,550	-	49,550	-	
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	BRS-5501(005)	41,186	-	41,186	-	
Total Highway Planning and Construction Cluster:				930,914	-	930,914	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WTSC)	State and Community Highway Safety	20.600	2019-AG-2762	40,419	-	40,419	-	
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WTSC)	State and Community Highway Safety	20.600	2020-HVE-3771	1,239	-	1,239	-	
Total CFDA 20.600:				41,658	-	41,658	-	
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WTSC)	National Priority Safety Programs	20.616	2019-AG-2831- 2019	5,908	-	5,908	-	

The accompanying notes are an integral part of this schedule.

City of Bellingham
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WTSC)	National Priority Safety Programs	20.616	2019-HVE-3227 -REGION 11 TARGET ZERO MANAGER	2,549	-	2,549	-	
Total CFDA 20.616:				8,457	-	8,457	-	
Total Highway Safety Cluster:				50,115	-	50,115	-	
Student Financial Assistance Cluster								
OFFICE OF FEDERAL STUDENT AID, EDUCATION, DEPARTMENT OF (via WCC)	Federal Work-Study Program	84.033	WCC	1,240	-	1,240	-	
OFFICE OF FEDERAL STUDENT AID, EDUCATION, DEPARTMENT OF (via WWU)	Federal Work-Study Program	84.033	WWU	7,826	-	7,826	-	
Total Student Financial Assistance Cluster:				9,066	-	9,066	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WSMD)	Emergency Management Performance Grants	97.042	EMS-2018-EP- 00004-S01	48,662	-	48,662	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Assistance to Firefighters Grant	97.044	EMW2017-FO- 04744	-	426,168	426,168	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Port Security Grant Program	97.056	EMW-2017-PU- 00063	-	907	907	-	
Total Federal Awards Expended:				1,121,914	2,655,285	3,777,199	1,707,573	

The accompanying notes are an integral part of this schedule.

City of Bellingham
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - HOUSING AND URBAN DEVELOPMENT (HUD) PROGRAMS

The City administers two HUD sponsored programs titled the Community Development Block Grant Program (CDBG) and the Home Investment Partnership Program. These programs are primarily used for funding low income housing, by granting awards and extending low interest loans that are used for local home and property acquisitions, development, renovation, rehabilitation, and tenant based rental assistance. The loan repayments of principal and interest received throughout the year are considered program income and are used in part for extending new loans thus creating a revolving loan program. Through the (CDBG) program, grants were awarded and loans were extended during the year in the amounts of \$176,742, and \$1,150,840 respectively. The amount of revolving loan repayments and HUD CDBG funding received during the year totaled \$432,334.18 and \$1,126,442 respectively. Through the (HOME) program, grants were awarded and loans were extended during the year in the amounts of \$140,912, and \$239,079 respectively. The amount of revolving loan repayments and HUD HOME funding received during the year were \$273,592 and \$102,420 respectively.

NOTE 4 - INDIRECT COST RATE

The City has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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